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NEWS SUMMARY

GENERAL

Hopes for oil price agreement fade

Prospects for a realignment of Opec oil prices receded sharply last night when Saudi Oil Minister Sheik Yamani indicated his Government would not raise the price for its main crude to $34 a barrel.

Delegates at the Opec conference in Geneva had earlier hoped the Saudis would agree to a $2 rise, narrowing the gap in the price range established by members last December. Back Page

Hunger striker takes treatment

IRA hunger striker Brendan McLaughlin, 32, has agreed to accept treatment for a perforated stomach ulcer. His decision is a break from Maze prisoners' hunger strike policy, but he will continue his fast, now in its 14th day.

Military funerals

Military funerals were held for two of the five soldiers killed in Ulster last week when an IRA bomb blew up their Saracen personnel carrier.

French arms move

France said it would honour existing contracts for arms deliveries but would sign no new contracts to sell arms to fascist or racist states.

Mission standstill

The Middle East peace mission of special U.S. envoy Philip Habib is at a standstill. Page 4

TV crew held

A four-man Thames Television crew has been arrested by Syrian troops in Lebanon.

Workman missing

Miners were last night searching for a contractor's employee missing 1,500 ft down a flooded pit shaft at Bentley Colliery, near Doncaster.

Ripper faces quiz

Yorkshire Ripper Peter Sutcliffe is to be questioned about the unsolved M1 murder of teacher Barbara Mayo more than 10 years ago.

Strike break

Leyland South Africa has hired almost 1,500 workers to break a strike by 1,900 sacked last week in a wage dispute. Page 4

Hussein visit

King Hussein of Jordan arrived in Moscow on a state visit which could help the Soviets to re-establish influence in the Middle East.

Cosmonauts land

Two Soviet cosmonauts returned safely to earth after 76 days aboard the Salyut-6 orbital space station.

New York 'sniper'

New York police believe a sniper firing at random from an apartment block is responsible for wounding six people in four months.

Royal divorce

A Utrecht district court approved the divorce of Princess Irene of the Netherlands and Spanish Prince Carlos-Hugo.

Briefly . . .

Three thieves had fingers cut off on Islamic court orders in Shiraz, Iran.

Foreign Secretary Lord Carrington arrived in Algiers on a three-day official visit.

Financial Times

The Financial Times regrets that some readers were unable to obtain their copy of the FT yesterday. This was because of production difficulties.

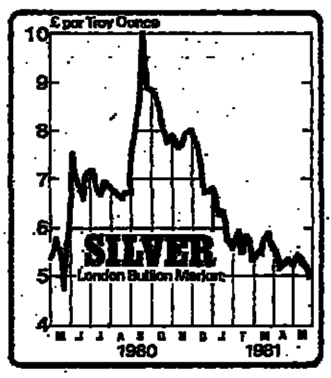
BUSINESS

Equities firmer; Gold off $5.5

● EQUITIES were subdued but after-hours firmness, based on the view that no further fund-raising will be announced this week, left the FT 30-share index 4.2 higher at 547.6. Page 26

● GILTS improved. The Government securities index was up 0.21 at 66.71. Page 26

● SILVER was at a 12-month low. The London bullion market spot quotation was cut by 16.5p to 499.5p ($10.335) a troy ounce. Page 25



● GOLD fell $5.5 to $468 in London on dollar strength. Page 19

● STERLING was 60 points lower at $2.067, the lowest close since November 1979. It eased to FFr 11.455 (FFr 11.565) but was firmer at DM 4.825 (DM 4.805) and Y464 (Y461). Its trade-weighted index stayed at 98.8. Page 19

● DOLLAR trade-weighted index rose to 107.1 (106.7). It was firmer at DM 2.3335 (DM 2.316), unchanged at SwFr 2.075, and easier at FFr 5.5425 (FFr 5.58). Page 19

● WALL STREET was off 2.6 at 969.12 before the close. Page 24

● RECESSION began to level out in the first quarter of the year, with the smallest decline in economic activity for 18 months, new figures show. Back Page

● SHORTER working hours would not cut dole queues, said CBI director-general Sir Terence Beckett. Page 10; Editorial comment, Page 14

● SOVIET UNION will buy at least 25m tonnes of Canadian grain by July 1986 in a deal worth a minimum of US$5bn (£2.4bn). Back Page

● STOCKBROKERS and jobbers will need to contribute more to the running of the Stock Exchange, the council warned. Page 6

● DIAMOND production is to be reduced by the De Beers mines—possibly by about 5 per cent—because of the depressed state of the gem market. Page 18

● BURNETT and Hallamshire, Sheffield mining and construction group, was Britain's fastest-growing company in the past 10 years, said a magazine survey.

● FRANCE'S annual inflation rate rose to 12.7 per cent last month from 12.5 per cent in March.

● KELSEY INDUSTRIES' profit before tax for the half year to end March plunged 76 per cent, from £1.63m to £384,000, on turnover down from £12.19m to £10.65m. Page 17

● WESTDEUTSCHE Landesbank, West Germany's third biggest credit institution, reported profits last year of DM 45m (£9.3m), down from DM 121m—DM 60m of it from its building society subsidiary. Back Page

● LEX Service Group plans to acquire Schweber Electronics, Long Island electric components distributor, for $48.75m (£23.5m), expanding its U.S. interests. Page 18

CHIEF PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Excheq. 12pc 1998	£84½	+ ½
Amal. Distilled Products	65	+ 4
Arbuthnot Latham	298	+ 18
Assoc. Comms. A	60	+ 4
Bowater	256	+ 7
Eagle Star	232	+ 7
Fairdale Textiles	20	+ 4
Geers Gross	110	+ 7
Glaxo	336	+ 6
G.R.E.	296	+ 6
Hambros Bank	810	+ 30
Hill (C.) of Bristol	108	+ 16
ICI	292	+ 6
Lex Service	104	+ 7
Meyer (M. L.)	80	+ 4
Smith Inds.	373	+ 13
Sound Diffusion	125	+ 5
Tate & Lyle	186	+ 4
Thorn EMI	390	+ 8
Unilever	552	+ 12
Bearcat	475	+ 155
LASMO	595	+ 20
Aust. Cons. Mins.	32	+ 6
Eagle Corp.	63	+ 10
Swan Resources	85	+ 15
Vamgas	800	+ 25
Western Mining	302	+ 12

FALLS

Allied Leather	183	− 15
Kelsey Inds.	155	− 9
Mercantile House	763	− 25
Porter Chadburn	58	− 4
Highlands & Lowlands	75	− 5
Malakoff	143	− 9

Italy seeks successor to coalition shattered by P-2 scandal

BY RUPERT CORNWELL AND JAMES BUXTON IN ROME

PRESIDENT Sandro Pertini of Italy has begun what seems likely to be a long and difficult search for a solution to his country's 41st post-war government crisis, provoked by the growing scandal over a secret Freemasons lodge.

Sig. Arnaldo Forlani, the Prime Minister, yesterday presented the resignation of his battered seven-month Government after the Socialists, the key members of the four-party coalition, had refused to participate in discussions on handling the Freemasons' affair.

Today, the President starts his formal round of consultations with party leaders. It is then up to him to select the politician who will have the thankless task of favouring a new government which can secure a parliamentary majority.

The indications last night were that Sig Forlani would be offered the first try to succeed himself. In the event of failure many observers think that the mandate might be given to Sig Bettino Craxi, the Socialist leader.

The scandal — the most devastating in recent years even by Italian standards — broke last week with the publication of the purported lists of 963 members of Propaganda-2 (P-2), a Masonic lodge accused of becoming a state within a state.

Its members are alleged to include two government ministers, three dozen deputies, and many generals and admirals, police officers, civil servants, financiers, industrialists and journalists.

Sig Adolfo Sarti, the Justice Minister, resigned last week after reports that he had applied to join the lodge. The activities of P-2, which had its headquarters in the Tuscan town of Arezzo in central Italy, lead into some of the murkiest recent scandals including the Sindona affair, the £1bn oil tax fraud unveiled last autumn, the international arms trade, and links with the extreme Right.

None of this has been proced but the mere effect of publication has been enough to give a final push to an already tottering coalition.

Last night, leading Socialists said that the party would be pressing hard for the Prime Minister's job. Were it to succeed, it would be the first time since the Second World War that a non-Christian Democrat has held the job.

However, the Christian Democrats, embittered by what they see as a Socialist betrayal of Sig Forlani, are unlikely to be receptive. If the two sides maintain their positions, a general election three years before it is due could be the only solution.

Much will depend on Sig Pertini, the 84-year-old President, who has repeatedly declared that he will not dissolve Parliament before its due time.

Matters are complicated by an important round of regional elections (including those for Rome), on June 21, in which 9m Italians will be voting.

The uncertainty had an immediate impact on the Milan Bourse. While the lira sank to an all-time low of 1,157 against the dollar, share prices yesterday lost an average 3 per cent amid fears that a long awaited shake-out, after months of uninterrupted gains, may be under way.

The market fall followed its unprecedented rise of about 130 per cent since the beginning of last year accompanied by record levels of turnover. It may mark the start of a sustained wave of profit-taking.

Factional friction behind crisis, Page 2

Major world airlines may raise fares 5%

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

MORE THAN 100 of the world's major airlines have been called to a special meeting of the International Air Transport Association in Geneva next week to consider an immediate fares rise of up to 5 per cent, and other measures to combat rising costs.

The meeting, on June 2 and 3, will be under the chairmanship of Mr. Adam Thomson, chairman of British Caledonian Airways. It is not one of the regular IATA fares-fixing meetings, but more of an emergency meeting to consider ways of fighting soaring costs in almost every direction. The meeting will be at chairman and top-executive level.

Although the big fuel price rises of recent months appear to have stabilised in many parts of the world, it is known that further rises are planned and fuel is bound to cost more by the end of the year. Fuel accounts for over 30 per cent of total airline operating costs.

Other costs have continued to rise, such as labour charges, landing, and air navigation fees, and equipment costs.

Last year, the airline members of IATA collectively incurred losses estimated at $2.5bn (£1.2bn). Some airlines fared worse than others—British Airways is estimated to have lost about £100m.

The industry faces bleak financial results and an even more bleak future, unless action is taken soon.

The airlines' main problem is not that there is insufficient traffic—last year, they carried about 750m passengers on scheduled services worldwide, or about 2 per cent more than in 1979.

So far this year, although there has been a decline in traffic on some routes, traffic volume as a whole appears to be holding up well, and a further rise of about 2 to 3 per cent over 1980 is forecast.

The basic difficulty is that the financial yield is too low to cover soaring costs. Much of the passenger traffic is still being carried at cheap promotional rates introduced over recent years to meet consumer pressures but which have been overtaken by rising costs.

There is hardly an airline in the world which is not facing this kind of problem. As a result, while the airlines will try to preserve differentials between fares, the general belief is that the entire "fares plateau" will have to be raised if many airlines are to avoid further heavy losses.

As a result, one of the immediate consequences of the meeting next week seems likely to be a call to governments to permit immediate rises in fares of up to 5 per cent, and perhaps even more on some routes.

The increases will be sought "across the board"—that is, without getting rid of the cheaper fares (which many airlines would like to do, but cannot for fear of incurring government and consumers' wrath, and possibly losing traffic).

Continued on Back Page

BA forecasts £12m profits rise, Page 7

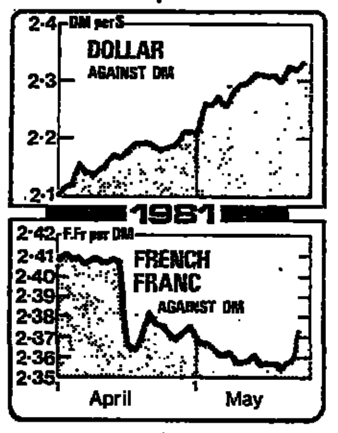
Lufthansa forced to pass dividend, Page 22

Bundesbank intervenes to support D-Mark

By Stewart Fleming in Frankfurt

THE D-MARK came under renewed pressure against the dollar in Frankfurt yesterday against a background of unsettling political and financial news. The Bundesbank, the West German Central Bank, intervened to support the currency both at the official fixing and through intervention in the foreign exchange market.

At the official fixing, the D-Mark was set at DM 2.2290 to the dollar, its lowest level since September 27, 1977. The Bundesbank sold $25.2m supporting the German currency



at the fixing and, according to foreign exchange traders, was also active later supporting the currency in the market.

The German currency was nevertheless quoted as low as DM 2.34 at one stage. Traders suggested that in part the pressure on the mark stemmed from D-Mark sales to cover repurchases of French Francs sold heavily last week.

The D-Mark rallied slightly later on, with the dollar closing in London at DM 2.3335.

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Details, Page 19

Civil servants offer major concession in bid to restart talks

BY PHILIP BASSETT, LABOUR STAFF

CIVIL ERVICE union leaders yesterday held out the prospect of a significant pay concession for the first time in the 11-week dispute in an attempt to resume negotiations with the Government.

However, the Council of Civil Service Unions warned that if its initiative were rejected, or if any talks failed, it would extend the campaign of selective strike action into the sensitive area of benefit payment from June 8.

The council's major policy committee, comprising leaders of all nine unions, made what they described as a "genuine gesture" to get talks restarted. They offered negotiations "without conditions being laid down by either side."

Notice of the decision was sent to Lord Soames, the Lord President of the Council and the Minister responsible for the Civil Service.

Previously, the unions have insisted that any further negotiation would have to improve "significantly" on the present 7 per cent offer for this year.

However, they made it clear yesterday that removal of this major precondition would have to be accompanied by a similar gesture from the Government, which they believe, must allow pay for this year back on the agenda.

The Civil Service Department said a formal reply to the unions would be drafted and talks could be got under way this week.

However, officials were concerned that if pay for this year were included in the talks, the unions might mistakenly believe there might be room for improvement on 7 per cent. While some ministers feel there is up to an extra 3 per cent available, the Prime Minister is insistent that no such increase should be approved.

The unions appear to have reached their decision for two main reasons.

First, their concern about the level of support for escalating the present action. The two largest and most militant unions did move a proposal yesterday for an all-out strike to last a number of days, but this was not strongly pressed.

Secondly some union officials fear that if there are no talks, the Government may not only withdraw the 7 per cent for this year and the possible prospect of arbitration for next year, but also its offer of flexibility over next year's cash limits and of an outside inquiry into Civil Service pay.

In the event of the unions carrying out their threat about benefit payments, staff would be pulled out of computers at Reading and Livingston, in Scotland. This would halt the automatic payments of unemployment benefit.

Standby arrangements would be made to make payments manually. This would create serious difficulties in the rest of the department's work. In particular, new unemployment benefit claims could not be dealt with. They would have to fill the more complicated application for supplementary benefit, which would cause similar problems to those seen over passport applications.

To preface this possible action, 12 staff at the Reading computer centre engaged on preparatory work for the taxation of unemployment benefit were pulled out on strike. Union officials claimed this could cost the Government £20m.

Other action in south coast ports, Royal Ordnance factories and the Atomic Energy Authority will be taken next week, and action by air traffic staff due to end this week will be continued.

BOC offers stock worth £82m

BY CHRISTINE MOIR

BOC INTERNATIONAL is to call on shareholders to help it increase the average length of its borrowings by subscribing for £82m-worth of 20 to 25-year unsecured loan stock convertible into ordinary shares after five years.

The decision to refinance its largely floating rate, short to medium term borrowings, through a rights issue, was the company's second choice.

It planned to issue paper on the international bond markets but the collapse of the U.S. bond market and the high—14 per cent—coupons prevailing in April in the UK debenture market, dissuaded it from this course.

Instead it turned to shareholders and yesterday announced the largest rights issue so far this year, bringing the total of rights issues by UK companies to £765m this year, £344m of it in the past month.

BOC shareholders are offered £1 of stock carrying 9 per cent interest for every four shares held. They are promised a "substantial"—but unquantified—"improvement" over last year's £61.5m of pre-tax profits. Half-year figures, also published yesterday, revealed, however, only a 7.4 per cent increase in pre-tax profits after a 17.5 per cent increase in the first quarter.

The interim dividend is to go up by 10 per cent to 2.31p and although Mr. Richard Giordano, the chief executive, warns that this should not be taken as an indicator of the level of the final dividend, he suggested yesterday that it should tell the market which way things were going.

The company intends to lay off between 1,800 and 2,000 workers before September at a cost of £4m in the first half of the year and about £10m for the year as a whole. Half the redundancies have already taken place.

BOC's shares had shed 2p to 127p by yesterday's close when Lazard Brothers, the company's banker and main underwriter, had completed the sub-underwriting exercise.

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Chrysler to buy Peugeot engines

BY TERRY DODSWORTH IN PARIS AND IAN HARGREAVES IN NEW YORK

CHRYSLER AND PEUGEOT, the large U.S. and French motor companies, yesterday took another small step towards forming a partnership which has in the past seemed likely to lead to a full-scale merger.

The two companies said they had signed a letter of intent to manufacture a sub-compact car in the U.S. in the mid-1980s. They also announced Chrysler's intention to buy up to 450,000 1.9 litre diesel engines from Peugeot between late 1983 and 1988.

Although neither of these dvelopments is exactly surprising, the announcement does indicate that in spite of their respective financial problems, the two companies have still not ruled out the possibility of joining forces in the overcrowded North American market.

Chrysler recently reported its ninth successive quartely loss, in spite of a $1.2bn infusion of government loan guarantees in the last 18 months. Peugeot is expected to report a consolidated loss for 1980, of at least FFr 2bn. (£174m).

Yesterday's deal, involves only a letter of intent on the sub-compact car, which will be a medium-sized car by European standards. It follows a more general commercial agreement in February 1980, in which the two companies envisaged a wide range of co-operative projects, including eventual joint car manufacture in the U.S.

That deal was preceded by Peugeot's agreement to make a $100m short-term loan to Chrysler against the collateral owns in the French company. of 1.8m shares Chrysler still

Yesterday, Chrysler's 1.8m Peugeot shares were valued on the Paris Bourse at just over $45m, compared to the $323.9m which they are valued in Chrysler's books.

The wider and more intriguing question is the strategy of the French Government in the North American motor industry.

The new socialist Government of President Mitterrand has already made it clear that it envisages taking a 33 per cent "blocking majority" in Peugeot when the company appeals to the Government for money, as planners in the Socialist Party believe is inevitable.

The Chrysler-Peugeot announcement yesterday may be nothing more than a means for the French company to sell engines without appreciably increasing its exposure to the stricken Chrysler.

It is possible to argue, however, that a number of companies—Peugeot and Mitsubishi among them—are at least interested in staying close enough to Chrysler to be able to increase their links with the company if Chrysler can get itself into the black for a sustained period.

CONTENTS

Mitterrand plans friendly policy towards Arabs

BY ROBERT MAUTHNER IN PARIS

THE new French Government is going out of its way to reassure Arab countries that France intends to pursue a friendly policy towards them, despite M. Francois Mitterrand's sympathy for Israel.

While the newly-elected President has accepted an invitation to visit Israel, no firm date has been set. At the same time, M Claude Cheysson, the Minister for External Affairs, announced yesterday that M. Mitterrand would send special emissaries to the Arab countries to explain the new Government's policy.

The French President has already taken the opportunity of sending a personal message to King Khaled of Saudi Arabia through his own brother, General Jacques Mitterrand, who was paying a visit to the Arab kingdom in his capacity as chairman of Aerospatiale, the French nationalised aircraft company. According to reports from Saudi Arabia, King Khaled has invited the French President to visit his country.

To underline the point that France had no intention of changing its policy towards the Arab world, M. Cheysson said the new Government intended to respect all the political and commercial agreements made before M. Mitterrand's election.

In a radio interview, M Cheysson specifically gave an undertaking that all arms contracts would be fully respected by France, despite rumours to the contrary.

The appointment of M Michel Jobert to the important post of Trade Minister, in which capacity he will be responsible for commercial relations with the Arab world, is seen as another guarantee that the new Government will not pursue an anti-Arab policy.

As the late President Pompidou's Foreign Minister, M Jobert was particularly active in promoting Franco-Arab relations and was instrumental in the conclusion of some of the first big oil-for-arms and technology contracts with Saudi Arabia.

Unions demand big wage rises and shorter hours

BY OUR PARIS CORRESPONDENT

THE MAIN French trade unions yesterday presented M Francois Mitterrand, the new President, with a long list of demands ranging from substantial increases in the national minimum wage and family allowances to the progressive introduction of the 35-hour week.

M Mitterrand, who saw the trade union leaders one after the other, has already promised to meet several of the demands in principle. But it is clear that those presented by M Georges Seguy, the leader of the Communist-dominated General Confederation of Labour (CGT), the country's biggest union, go far beyond what any government could offer.

The CGT is asking for a rise of 20 per cent in the national minimum wage (SMIC) from June 1, which would take it in one jump from FFr 2,644 (£230) to FFr 3,174 per month. By June 1982 if the CGT's proposals were to be accepted, the minimum wage would have risen to FFr 3,600.

M Edmond Maire, the leader of the CFDT, the union close to the Socialist Party, asked for the minimum wage to be raised by 10 per cent on June 1 this year and by 30 per cent over a period of three years.

This was confirmed by M Andre Bergeron, leader of the moderate Force Ouvriere, who said after meeting the President that "people are talking about 10 per cent."

The other main demand was for the introduction of a 35-hour week, which the CFDT said could be introduced in all French companies within five years, after annual reductions of two hours.

Spanish jobless problem set to worsen

By David White in Paris

SPAIN'S unemployment is expected to worsen this year and may reach "alarming levels" in some regions as economic growth remains subdued, according to the OECD.

The organisation forecasts a growth rate in real terms of about 2 per cent, after 1.7 per cent last year, despite the "rather expansionary stance" of Government policy.

Terms of trade are expected to deteriorate, leaving a trade deficit of about $14bn (£6.6bn) compared with $12bn last year and a current account shortfall of about $6.5bn against $5bn.

These results, which take account of the effects of poor harvests, should not, however, raise serious financing problems. But public borrowing from abroad may have to be organised on a larger scale.

The jobless rate is seen rising to 13 per cent of the labour force compared with 11.2 per cent in 1980.

Inflation is expected to slow—depending on the extent of oil price increases—with consumer prices forecast to rise 14.5 per cent against 15.5 per cent last year.

The OECD urges the authorisation to move towards restoring the play of market mechanisms, which it says would help long-term activity, although the recent removal of regulations may have hindered investment because it "upset the traditionally protracted environment in which business operated."

The report also calls for wage restraint and greater flexibility in the economy, notably through the operation of a proper capital market and a further liberalisation of external trade.

Jane Monahan adds from Madrid: Leopoldo Calvo Sotelo, the Spanish Prime Minister, hastily reviewed the attack on a bank in Barcelona, in Parliament yesterday, clarifying little and praising the work of the Ministry of the Interior and the intelligence services as "brilliant."

The Prime Minister hedged on earlier statements made by officials that the attack was the work of the extreme right. This was based on the gunmen's demand for the release of four army officers implicated in last February's attempted coup.

Fact and fiction blend in Italy's latest crisis

BY RUPERT CORNWELL IN ROME

THE LEADER of Italy's small Republican Party, Sig. Giovanni Spadolini, remarked the other day that his country "is placed somewhere between Sweden and Latin America." The bewildering blend has been perfectly illustrated by the events of this astonishing month of May.

Just one week ago, the Italian people displayed a north European maturity by voting overwhelmingly to retain modern, sensible abortion legislation in the teeth of unremitting hostility from the Church and an assassination bid on the Pope. Now the Latin American flavour of the country's public life has been revealed in all its splendour by the affair of the P-2 (Propaganda Two) Freemasons' lodge.

To what extent all or any of this is true may only be guessed at. Sig Licio Gelli, the runaway grand master of P-2, has been charged in his absence with "political and military espionage," following the discovery of top secret state document in Arezzo. But are they genuine? Are the lists of names authentic or fabricated? Whey were they not destroyed out of precaution?

None of this, however, really explains why the Government has fallen. The Cabinet itself was relatively untainted by the affair, so might not a mere reshuffle have been enough, removing the two ministers whose names featured in the lists of alleged members?

Publication of the purported lists of 963 members of P-2 may have let loose the most devastating Italian scandal of recent years, even by the standards of a country where scandal is endemic. Italy's 40th-post-war Government has been swept away and a very difficult political crisis has begun.

The ever-increasing problem of finding any formula to run the country is best shown by statistics. The first three administrations of Italy's eight post-war parliaments have lasted seven, six and seven months respectively. What are the chances of finding a more durable arrangement—above all in the choking atmosphere created by the P-2 affair?

Rumours, allegations, denials and partial admissions make it impossible to separate fact from fiction. The trail from the lodge's Arezzo headquarters in Tuscony would seem to lead into some of the murkiest corners of national life—the Sindona scandal; the ENI/Saudi Arabia oil deal of 1979; the $2bn oil tax fraud unveiled last autumn—as well as to the international arms trade and the Italian secret services with their links to right-wing extremism and putative Latin American-style coups.

That, though, is to ignore the fact that the outgoing coalition has been the most strife-torn in recent memory. The seven-month ordeal of Sig Arnaldo Forlani, the Prime Minister, has demonstrated vividly that any government here is a helpless prisoner of the parties which support it.

> The outgoing coalition has been the most strife-torn in recent memory. The seven-month ordeal of Sig. Arnaldo Forlani has demonstrated vividly that any Italian government is a helpless prisoner of the parties which support it.

Since 1979's inconclusive general election, events have become an endless game of poker between the ruling Christian Democrat Party, desperate to retain its dominance, and the Socialists under their leader Sig Bettino Craxi, whose open aim is to wrest the premiership from it.

Sig Craxi's refusal to attend a four-party summit on the P-2 affair directly provoked the Forlani administration's downfall. If the Christian Democrats now call the Socialists' bluff then a new general election, three years before it is due, may be the only answer.

The battle between Christian Democrats and Socialists and the existence of the sinister P-2 stem from the same cause — the lasting paralysis of Italy's political system. A Communist Party which holds 30 per cent of the popular vote is still not yet considered fully legitimate. Consequently, alternation of power, of the type upon which France has now gingerly embarked, has been impossible.

The one change Italy might realistically hope for is a non-Christian Democrat Prime Minister for the first time since the War. It is conceivable, but improbable, that this might happen now, especially as the ruling party appears to be most heavily implicated in the affair.

The P-2 lodge is best seen perhaps as a super-clique, including many prominent people who believed that the future would be safeguarded and that their careers would be advanced by membership and the support of powerful friends and protectors. This is how Italy always has operated. The absence of political alternatives to the status quo meant that they could survive for so long without discovery.

Eventually the lodge was exposed, but not by the opposition Communist Party which is unsullied by the affair. Instead it was uncovered by magistrates probing other scandals, above all that involving Michele Sindona, the financier now in a U.S. jail. They passed the lists to Sig Forlani and to the parliamentary committee investigating the Sindona case. For two months the Prime Minister did nothing, then released the lists only when the committee said it would do so anyway. His reluctance has been shown to have ben well-founded.

The country's delicate political equilibrium has been destroyed for the time being and the consequences of the scandal could be further reaching than any of its predecessors. But if the system itself is completely rotten, how do you repair it without building an entirely new one? That is the basic dilemma, given Italy's ossified politics.

Crisis is the most overworked word in the country's language. Once it was defined by Antonio Gramsci, the father of Italian communism, as meaning: "When the old is dead and the new cannot be born." His words have rarely had a truer ring.

BRUSSELS SEEKS SOCIAL AND REGIONAL BOOST

EEC budget fight in the making

BY JOHN WYLES IN BRUSSELS

THE European Commission is about to put EEC member governments through a new public spending test by tabling a draft 1982 budget proposing to boost regional and social spending by nearly 50 per cent because of worsening unemployment.

Partly as a result, the total budget spending of £11.86bn (22.38bn units of account) is the highest in EEC history, although still less than 1 per cent of Community GDU, and only £318m below the Community's revenue ceiling.

The narrowness of this margin poses an awkward choice for governments which cut the Commission's 1981 regional and social spending proposals last autumn because they cared more about keeping the Community well within its revenue limits.

This was particularly true of France and West Germany, and it remains to be seen whether President Mitterrand's commitments to greater domestic social spending will translate into his taking a more benign view of greater efforts at Community level.

The Commission wants to boost outlays on social policies from £366.1m to £544.6m with the bulk of the money earmarked for helping unemployed youth, migrant workers and backward regions.

At the same time, it proposes pushing up regional development spending from £460.9m to £593.6m. The total for this category rises to £1.57bn because of interest rebates to Italy and Ireland and a return to the UK of £876m to offset its budget contributions for this year.

As Mr Christopher Tugendhat, the Budget Commissioner, claimed yesterday, the draft shows some continuing success at holding the increase in farm spending (12.5 per cent in 1982 over 1981) below the growth of spending on other policies.

The extent to which member governments attack the non-farm sectors of the draft could hinge on whether they believe the £7.38bn allocated to farm prices guarantees will be to cover any fall in world prices which would push up the cost of subsidising food exports. If they think this might happen, they may try to create a bigger reserve in the budget.

The total allocation this year for agriculture has proved over-generous and as a result the Commission is also proposing a rectifying budget. This would transfer £265m to extra spending by the end of the year on the regions and on food and other aid for the Third World.

CAP reform may include freeze on food prices

BY OUR BRUSSELS CORRESPONDENT

THE cause of common agricultural policy (CAP) reform may be on the verge of an important breakthrough following European Commission suggestions that the gap between EEC and world food prices should be substantially closed.

If this emerged as a central policy objective over the 10-year period which the Commission apparently has in mind, then Community prices for some products, notably dairy and possibly live animals, would almost certainly have to be frozen for a lengthy period.

This, in turn, would help cut surplus production and reduce CAP demands on the Community budget for funds for export subsidies. The political obstacle course remains a long one but the idea looks likely to feature in the Commission's report next month outlining possible CAP reforms as a means of helping to change the EC's balance of spending away from agriculture.

The relationship between EEC and world prices is very fluid, but EEC levels have been substantially higher since 1975. The range varies according to product at anything between 30 and 400 per cent.

The Commissioners have also apparently agreed that a stricter pricing policy must be allied to specific production limits for surplus products. If these are exceeded, then either producers would receive lower guaranteed prices for their surplus or they would be taxed to pay for its disposal.

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Schmidt's foreign travels build up his strength at home

BY JONATHAN CARR IN BONN

HERR HELMUT SCHMIDT, the West German Chancellor, has returned to Bonn well pleased with his talks in Washington with President Ronald Reagan and in Paris with the new French President, M Francois Mitterrand.

The results of both should help to strengthen Herr Schmidt at home, notably against increasingly restless elements in his Social Democrat Party. But that is far from saying that life will now be a bed of roses, either for the Chancellor or for the Western alliance.

On the positive side, Herr Schmidt established close personal ties with Mr Reagan—a striking contrast to the strains of the Chancellor's relations with ex-President Jimmy Carter. He is also delighted at the appointment of his old and admired acquaintance, Dr Arthur Burns, the former head of the Federal Reserve Board, as ambassador to Bonn. As a result, many of the avoidable irritations which have marked U.S.-West German relations in recent years will no longer emerge.

Further, the joint declaration issued in Washington at the end of Herr Schmidt's visit indicates that the West Germans gained much of what they were after—and perhaps more than they expected. On the key issue of intermediate-range nuclear missiles, Herr Schmidt won Mr Reagan's personal, public support for the formula that both parts of the Nato decision of December 1979 are to be given equal weight. Thus, the President himself is on record as underlining that negotiation with Moscow over missiles is as important as production and deployment of new missiles in the West. Bonn feels this is much more than a mere repetition of the Nato foreign ministerial formula adopted in Rome earlier this month. And, for a time, it should help Herr Schmidt against those Social Democrats who have questioned the sincerity of U.S. negotiating intentions.

Other sections of the declaration which seem bland enough in fact are of vital importance for Bonn's foreign policy interests. On the face of it, the references to the importance of "real freedom from (power) blocks" for Third World countries and the need for worldwide co-operation to solve the energy crisis look platitudinous. But the West Germans have feared that Washington might be moving on to a collision course with the Third World, which could harm Europe's raw materials and energy interests.

All that implies that a good start has been made. But the major difficulties, over East-West relations and international economic and monetary policy, are yet to come. While much attention has focused on getting missiles negotiations between the Reagan Administration and Moscow under way, little is said in public—understandably—about prospects for the success of those talks. In fact, it is felt that the Soviet Union has already created such a large imbalance in the intermediate-range nuclear sector that no negotiation, however cleverly conducted by the West, can of itself restore a balance.

So far, Herr Schmidt's strategy has been to get the Russians and Americans talking, at least. Some claim that he failed in an attempt to persuade Washington to bring forward the start of negotiations this year, but Herr Schmidt in fact had long opposed the idea of a first round before the autumn.

This is so because the Social Democrat Party conference is being held early next year, when missiles will be a major topic, and one to which Herr Schmidt has already tied his political future. Too early a start to Soviet-U.S. talks would bring widespread expectation of at least some visible progress by the time the conference began.

The second major complex of problems threatens to bring confrontation at the Western economic summit conference in Ottawa in only about eight weeks. The West Germans are now determined that U.S. interest rates—high and fluctuating—and their depressive impact on European economies should play a principal role in Ottawa. It is understood that Herr Schmidt and M Mitterrand were at one in their concern at this aspect of U.S. policy, and have agreed that the next round of Franco-German consultations be brought forward to aid close co-ordination just before the Ottawa summit.

Herr Schmidt also expressed his desire for a strong franc and emphasised that the West Germans would stand by their commitments to defend currencies within the margins laid down in the European Monetary System. That was to be expected. Less expected was that M. Mitterrand and Herr Schmidt also saw eye-to-eye on the need to respect both parts of the Nato missiles decision.

And that will do Herr Schmidt further good with his party which is delighted that a Socialist President is in power in France and was never wholly happy about the close ties Herr Schmidt had maintained with ex-President Valery Giscard d'Estaing, who was anything but a socialist.

Herr Schmidt feels he was able to make clear European concern on high interest rates and deepened recession during his Washington trip, but he received no sign that the U.S. was changing course. This, combined with U.S.-European differences over trade, could turn Ottawa into anything but a symbol of international economic co-operation. Little wonder that in a speech last week in Washington Herr Schmidt dropped his guard for one moment to refer to "an international environment that is becoming increasingly difficult and increasingly dangerous".

COALITION WINS SECURITY VOTE

The West German Social Democrat-Free Democrat coalition yesterday won a tensely-awaited parliamentary vote on its security policy, despite lack of support from 11 left-wing social democrat MPs, writes Jonathan Carr. The vote was 254 for and 234 against. Five left-wing social democrats voted with the Christian Democrats against the motion and six abstained.

It had been feared that more of the Left might desert the Government on grounds that the motion expressly supported both parts of the 1979 Nato decision on nuclear missiles. The Left supports one part of that decision urging negotiations with Moscow but not the other which calls for production of Western missiles and their deployment in Europe.

In the event some left-wingers who were unhappy about the motion went along with it because they believed only the present Government was likely to be able to follow an effective peace policy. The Christian Democrats do not oppose the Nato decision but opposed the motion because it expressed approval of Herr Schmidt's recent talks in Washington.

● The Chancellor (left) is pictured at the White House with President Reagan.

Problems in store for Finnish economy

By Robert Mauthner in Paris

FINLAND, whose output has risen faster than in any other Western industrialised country over the past two years, faces a more difficult economic situation during the next 18 months, according to the Organisation for Economic Co-operation and Development's review of the Finnish economy.

Economic growth is likely to slow down significantly to 2.5 per cent this year and 2.25 per cent in 1982, compared with 4.9 per cent in 1980.

This will be accompanied by a further weakening of the current external balance from a deficit of $1.3bn in 1980 to $1.7bn this year, though it is expected to improve again next year when the shortfall is expected to fall to $1.1bn.

Weaker growth is forecast to be accompanied by a slightly higher rate of unemployment. Inflationary pressures are expected to remain strong this year, with consumer prices rising by 12 per cent, compared with 11.6 per cent in 1980. But an improvement is expected in 1982, when the price rise is expected to drop back to 9.75 per cent.

The report concludes that relatively strong economic growth will be required to maintain employment and rising living standards. This is likely to require a relatively high investment level.

Lance Keyworth adds from Helsinki: The upswing in Finnish economic activity has passed its peak and the economy is slowly moving into recession after two boom years, according to both public and private sector forecasters. However, they expected the decline to be shorter and less steep than in the recent past.

The Ministry of Finance forecasts a gross domestic product growth of 3 per cent this year, while ETLA, the research institute of the Finnish economy, puts it at 2 per cent for both 1981 and 1982.

In the opinion of the Confederation of Finnish Industries the contraction in output is expected to be "slight" this year. It expects inflation to be held to about 10 per cent this year and possible single figures next.

Comecon speeds up preparations for economic summit meeting

BY PAUL LENDVAI IN VIENNA

NEGOTIATIONS ABOUT the agenda of a forthcoming economic summit meeting are proceeding at an accelerated pace in Eastern Europe. The 35th Comecon Council is likely to be held next month in Sofia in Bulgaria, though some Western officials have speculated that it might take place in East Berlin.

In a co-ordinated move, President Gustav Husak and President Nicolae Ceausescu, the Czechoslovak and Romanian party leaders, spoke out publicly in favour of a summit at the end of Mr .Ceausescu's three-day official visit to Czechoslovakia last week.

The last normal Council was held in June 1980 when the Prime Ministers met in Prague, but the latest statements by Mr. Husak and Mr. Ceausescu indicate that the next meeting will involve party chiefs as well as Prime Ministers.

Although almost six months of the current overall Comecon five-year plan period (1981-1985) have now passed, no agreement has yet been announced about coordinating the individual national plans

A call for the co-ordination of Comecon's five-year plans to be discussed "at the highest possible level" was made by Mr. Ilie Verdet, the Romanian Prime Minister, at last year's Comecon Council in Prague. The Polish crisis last year acted as a brake on preparations, but now the reduction of contracted coal deliveries from Poland coupled with pressures for additional commodity and financial credits has injected an element of urgency into discussions about a summit.

The Polish situation and its economic repercussions are only one of several controversial subjects, however. East European officials and economists have frequently criticised the inefficiency of certain Comecon agencies, the delay in carrying out target programmes and the severe difficulties of trade within Comecon because of the non-convertibility of currencies.

W. GERMAN STUDY CLEARS UNION OF BLAME FOR ECONOMIC CRISIS

Poles pay now for 'errors in 1970s'

BY LESLIE COLITT IN BERLIN

THE ACCELERATING decline of the Polish economy has mainly been caused by faulty structural decisions made in the early 1970s and not by the "social renewal" brought about by the independent trade union, Solidarity. This is the conclusion of DIW, the West German Institute of Economic Research, which says the goal set in 1971 of a forced industrialisation of Poland has not been achieved.

The institute's Comecon section, in an analysis of the Polish economy, says that up to a million Poles may lose their jobs this year partly because of the 450,000 school-leavers who will be seeking employment.

Polish reports speak of 1.5m unemployed next year. Poland has 16.5m employed of whom 5.4m are in the private sector, mainly farming. DIW says Polish industry is producing at only 60 per cent of capacity and that newly erected plants are running at only half their capacity.

The institute notes that Poland has no emergency economic programme with "concrete goals" and instruments for managing the crisis in the short term. The Government's economic stabilisation programme recently presented to Parliament by Mr. Henryk Kisiel, the planning chief, was rejected as wholly inadequate and sent back for re-drafting.

While the economy is expected to be decentralised, the institute believes that a leading cause of the current crisis was inadequate central control of investments, prices and imports. A representative of the Foreign Trade Ministry pointed out last month that the ministry controls only a little more than 40 per cent of Polish foreign trade.

The DIW analysis notes that Polish coal, the country's largest hard-currency earner, was being produced at an annual rate of 164m tonnes in the first quarter instead of the 188m tonnes planned.

Mr. Ryszard Karski, Poland's Foreign Trade Minister, said recently this was the main reason why exports to the West had dropped by a third in the first quarter of 1981 compared with the same period last year. The shortfall is especially serious as long-term coal contracts are closely linked to the repayment of Poland's debts.

DIW believes that the Government's radical shift from industrial investment to investment in private agriculture over the next five years will not necessarily bring an improvement for some time. It explains that total investments are being cut by some 25 per cent and that the increase in the percentage for agriculture will not mean it is actually getting more money.

David Dodwell, recently in New Delhi, analyses the economic problems facing India

'Sub-optimal growth' at the end of the tunnel

FOR THE first time in two years, India counts some optimists among its economists and industrialists. Good harvests, signs of more determined government and relief from some infrastructural blockages have brought to an end two years dominated by economic drift and India's worst drought of the century.

Industrialists are encouraged by the more liberal and pragmatic direction in which Mrs Indira Gandhi's 18-month-old Congress government is evolving its economic policies, but they are not yet convinced that enough has been done to lift India out of its poverty.

World Bank economists talk of "unprecedented uncertainty mixed with cautious optimism," while industrialists complain of confusion—both a great improvement on the profound pessimism of a year ago.

The failure of the 1979 monsoon triggered an economic slump last year. The Government's prudent grain storage programme insulated the country from famine, even pre-empting the need for imports. But agricultural production plummeted by 16 per cent and, in its wake, gross national product declined by more than 5 per cent.

The drought cut hydro-electric power supplies, aggravating inefficiencies in the thermal power sector and combined with failures in the coal sector, ports and railways to inflict serious injury on Indian industry.

At the same time, India's oil bill has soared—a result of price increases, disruption of supplies from Iran and Iraq, and a loss of 3.5m tonnes of oil from Assam after a revolt against the central government. From an estimated $4bn ($1=Rs4.76) in 1979-80, oil imports for the financial year ending in March are expected to be around $7bn, accounting for about half of the country's imports and three-quarters of its $9bn exports.

Even with recent economic improvements, the balance of payments position seems grim. The visible trade deficit has more than doubled to $6.6bn, while the current account deficit, bolstered a little by an increase in remittances from workers in the Gulf States, has widened from $650m to $3.4bn. Foreign exchange reserves, at a comfortable $7.2bn under a year ago, dipped to $6bn by March, covering less than five months' imports.

Oil imports have forced significant change in the Indian Government's economic thinking. Since the areas for potential import substitution are small—confined to fertilisers, cement, edible oils and steel—the government is for the first time facing the need for a policy of export promotion. The days of striving for a self-contained continental economy are over.

Domestically, prospects have greatly improved. A good 1980 monsoon raised agricultural output by 19 per cent, allowing the Government to replenish food stocks and the hydro-electric stations to return to normal.

The recently announced five-year plan — with $180bn in public investment up to 1985—clearly reflects this stronger hold, with heavy emphasis on relieving infrastructural problems.

The policy of export promotion, which carries with it the implications of overseas and commercial borrowing (unthinkable until this year) and a more liberal attitude to capital goods imports, has triggered cautious policy changes which have generally been welcomed by industry.

Despite the emergent optimism, the odds are that India will continue with what Mr. Raj Krishna, head of the Delhi School of Economics, describes as "steady," stunted sub-optimal growth"—at around the 3.5 per cent a year which has prevailed for the past 20 years.

Other headaches remain: labour unrest is beginning to increase after a period of industrial peace in the "honeymoon" first 15 months of Mrs. Gandhi's Government. Already, Bombay port has been badly hit, while workers in the public-sector industries in Bangalore have been striking for over two month.

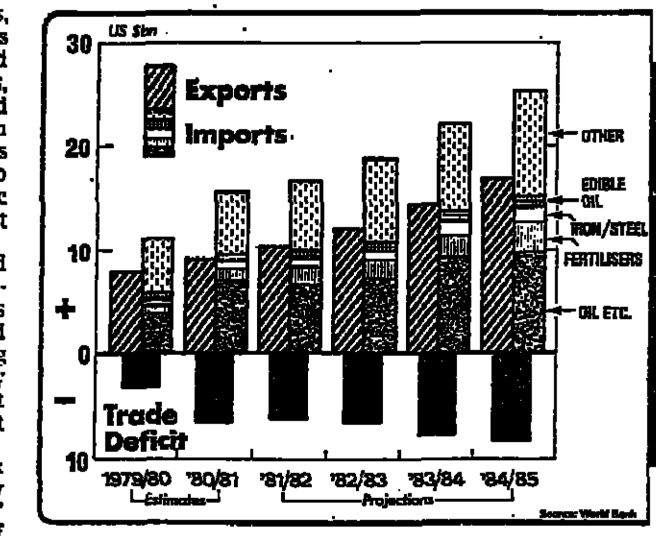
Remittances from workers in the Gulf states are expected to fall, while debt servicing costs are expected to rise. Both will exacerbate India's balance of payments problems.

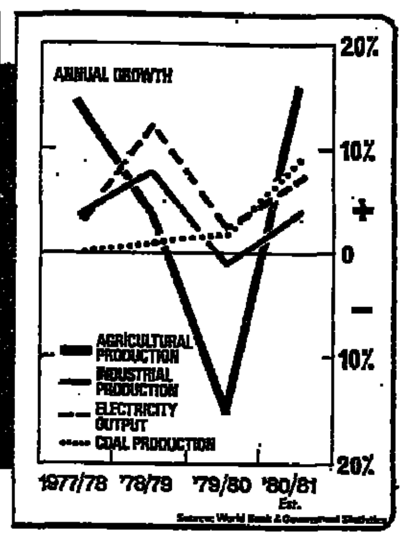
India is not likely to have difficulty in raising foreign loans: it is widely believed to be underborrowed, and commercial lenders give India a high credit rating.

The five-year plan's overseas financing target is $4bn over the next four years.

But even if India manages to raise exports and gross national product growth to the target levels, and to bridge its yawning payments gap, the country's two most formidable obstacles to growth seem likely to remain: public sector domination of industry, and rampant bureaucracy.

To tackle these deep-seated problems would take unflinching conviction on the Government's part. While it is clear that government economic policies are moving in the right direction, one quality they manifestly lack is conviction. Until this changes, "stunted, sub-optimal growth" is perhaps the best one can expect.





Record $4.6bn outflow adds to mortgage crisis

BY DAVID LASCELLES IN NEW YORK

THE U.S. savings and loan industry suffered a record $4.6bn (£2.3bn) outflow of funds last month, according to figures from the Federal Home Loan Board. The figures highlight the crisis afflicting the U.S. mortgage market.

The industry is losing out badly in the competition for depositor funds, largely because banking rules prevent them from offering attractive interest rates. The present maximum rate allowed on passbook savings, the bread and butter of the savings and loan business, is 5¼ per cent. Yet the popular money market mutual funds offer three times the amount.

April is always a bad month for the industry because people withdraw funds to pay their annual tax bills on April 15. But this year's outflow is nearly six times larger than in April last year.

The outflow will add to the industry's already serious financial problems and virtually ensures that its members will make large losses this year. In the second half of last year, the savings and loan's net return on assets was a mere 0.1 per cent.

The authorities have already recognised the problem and have acted to provide relief. But improvements will take years to work their way through.

Last year, Congress approved a bill that will raise interest rate ceilings on deposits over a six-year period to a level where they will reflect market rates. This should make savings and loans more competitive, though it will raise their cost of funds.

As from the beginning of this month, federally chartered savings and loans may also offer variable rate mortgages where repayments are adjusted as often as once a month.

Although such mortgages are common in Europe the U.S. has, until recently, been a fixed rate mortgage market. As the variable rate segment of the industry portfolios increases, the pressure on their finances should ease.

Machine-tool orders fall 11%

BY DAVID BUCHAN IN WASHINGTON

MACHINE-TOOL orders in the U.S. fell 11 per cent last month from their March level, according to the National Machine Tool Builders Association. The decline was due to high interest rates and unused factory capacity discouraging expansion, the association added.

The machine-tool sector stands to gain from the Reagan Administration's proposal—part of its overall tax package—to allow companies faster write-offs of their new investments against tax.

But this proposal to permit depreciation of write-offs of fixed plant over 10 years, equipment over five years, and vehicles over three years, is still tied up in Congress.

A number of economic indicators, such as retail sales and industrial production, have shown a slowing of the economy in recent weeks, since the strong surge in the first quarter of 1981.

But the April machine-tool performance is in line with most recent months, and perhaps a correction from exceptionally good growth in March.

Orders for non-defence capital goods—a broader category than machine tools—fell 5 per cent in April, according to the Commerce Department.

This may indicate that there is a little more slack in the capital goods sector than was feared, to cope with the defence spending surge which the Reagan Administration has planned.

Middle East peace mission at standstill

BY DAVID LENNON IN TEL AVIV AND ANTHONY McDERMOTT IN DAMASCUS

Western diplomats in Damascus believe the Middle East peace mission of Mr. Philip Habib, the U.S. envoy, now at a standstill, may be on the move again and say he is expected in the Syrian capital later this week. Yesterday a Syrian official said Mr. Habib was "always welcome" in the country.

The Syrian official did not necessarily expect any change in the American's previous proposals, because he believed that Syria's determination not to withdraw its SAM-6 missiles from the Bekaa Valley, and not to give in to other Israeli demands was necessary.

The point was made in Damascus yesterday, however, that, even if everything Mr. Habib had to offer was not acceptable to the Syrian Government, he had built up a close personal relationship with President Hafez Assad of Syria.

After spending three weeks trying to resolve the missile crisis between Israel and Syria, Mr Habib has now taken to playing golf at Caesarea in Israel rather than shuffling from capital to capital.

Mr Begin has said that Israel wants to avoid war and is willing to give Mr Habib as much time as he needs to seek a diplomatic solution. But having made the missiles into a major issue and having actually ordered his Air Force to destroy the batteries when they were first moved into Lebanon, something which bad weather made impossible, the Premier cannot acquiesce in their presence.

Mr Habib is believed to be awaiting some word from Saudi Arabia, which has been involved in trying to resolve the crisis, over the prospects for a change of mood in Damascus.

By remaining in Israel, the American envoy is apparently acting as a shield against the outbreak of fighting between Israel and Syria.

Oman blocks summit defence plan

By Roger Matthews in Abu Dhabi

GULF LEADERS failed to make any significant progress towards a unified defence strategy at their two-day summit here. The main stumbling block was the refusal by Sultan Qaboos of Oman to consider reducing his close military ties to the United States.

The other members of the newly inaugurated Gulf Co-operation Council—Saudi Arabia, Kuwait, United Arab Emirates, Qatar and Bahrain—argued that an American military presence in the region threatened domestic stability and invited a Soviet response.

In a series of bilateral meetings between the heads of State outside the main conference chamber, it is understood that Sultan Qaboos would not be swayed and is standing by an Oman plan for a joint naval force to guard the oil routes through the Straits of Hormuz in conjunction with U.S. forces.

Sinai force talks open

Egypt, Israel and the U.S. opened talks in Cairo yesterday that could lead to an agreement today on the size, nature and command structure of a multinational peacekeeping force to patrol Sinai when Israel withdraws from the peninsula in April next year, Alan Mackie reports from Cairo. A number of countries including Nepal, Ecuador and Argentina have reportedly been approached to participate.

Tour for Zhao

CHINA'S PREMIER, Zhao Ziyang, is to visit Pakistan, Nepal and Bangladesh next month, our foreign staff writes. He is expected to spend three days in Islamabad and Kathmandu, followed by a brief stay in Dacca. Talks in Islamabad with President Zia Ul Haq are likely to focus on defence. Soviet influence in Asia is also likely to be discussed.

Peru 'hopeful' on aid for £7bn investment schemes

BY DAVID WHITE IN PARIS

PERU IS "very hopeful" that it will receive enough aid pledges over the next few months to be able to go ahead with the bulk of an ambitious $14.5bn (£7bn) public investment programme, Sr. Manuel Ulloa Elias, the Prime Minister, said after a consultative group meeting at the World Bank's European headquarters in Paris yesterday.

Representatives of donor countries and international agencies have shown interest in the Government's programme of infrastructure, social and development projects, and talks would be pursued bilaterally.

Peru is seeking foreign finance of $4.9bn for the programme. Sr. Ulloa is meeting representatives of 120 leading Western banks here today to discuss private co-financing.

Sr. Ulloa said he hoped that the part taken by long-term concessionary aid in Peru's foreign debt would rise to at least one-third.

The debt stands at about $9.5bn, including a high proportion of suppliers' credits, and servicing is expectedt o cost around $1.2bn this year.

The current account balance is expected to swing into deficit, but Sr. Ulloa said this would be controllable. The shortfall should average 5 per cent of Gross Domestic Product up to 1985.

New murder victim found in Atlanta

By Our Washington Correspondent

THE OFFICIAL toll of missing and murdered young Atlanta blacks rose to 29 yesterday as police identified the latest victim to be fished out of the Chattahoochee River.

The Atlanta killings—28 in the past 22 months, and one child missing—have become a cause of national concern to the U.S. black community.

Many have taken to wearing ribbons of green or black in their lapels, in a gesture of solidarity with the prolonged nightmare of Atlanta's unsolved murders.

The racial significance of the murders is not clear to everyone. Certainly, all the victims have been black; but it is also considered possible by Atlanta police and Federal agents that the killer or killers may be black.

The Rev. Jesse Jackson, the prominent Chicago-based black leader, told a national rally about the Atlanta murders on Monday that the tragedies were the basis for "a new unity, a new power and a new determination" to fight for civil rights in the 1980s.

Australian banks rebuked for 'excessive' lending

BY COLIN CHAPMAN IN SYDNEY

THE Reserve Bank has rebuked Australia's 23 merchant banks for allowing the rate of lending growth to be "excessive" and out of line with the Federal Government's monetary policy.

The criticism came at a meeting last week between the Reserve Bank and the Australian Merchant Bankers' Association and was followed up by a formal letter from the Reserve.

It is believed to be the first time that the Reserve has resorted to such a formality and indicates the strength of feeling within the Government of the way the merchant banks appear to have side-stepped strict monetarist control.

In the year to March, merchant bank lending grew by 30 per cent, three times the targeted amount. Much of this extra growth has been caused by the inability of the trading banks to meet loan demand themselves.

The Reserve Bank was reluctant to discuss yesterday what plans it might have to reinforce monetary controls.

The Reserve Bank's letter reflects the growing anxiety in Canberra that the Government will find it impossible to reach its monetary targets. Australia's heading for another huge capital inflow this month, though the indications are that it will be lower than April's A$1bn perhaps between A$600m and A$700m.

Leyland replaces sacked Cape Town workers

BY QUENTIN PEEL IN JOHANNESBURG

LEYLAND South Africa, BL's wholly-owned South African subsidiary, has hired almost 1,500 black and mixed race workers to break a strike by 1,900 sacked last week in a dispute over higher wages.

Leyland is one of three major motor manufacturers hit by the latest wave of strikes in the South African motor industry. Mr. Arne Pitlo, the company's director of communications, said production of some 800 vehicles had been lost at the company's two factories which make cars, buses and trucks, outside Cape Town. He expected normal output to be regained by early next month.

There is still no sign of a settlement in Port Elizabeth, where both Ford and General Motors have been hit by a sympathy strike over a dispute at the Firestone Tire Company.

Some 3,000 workers in the city are now in their second week of the strike, and talks between Firestone and the Motor Assembly and Components Workers' Union remain deadlocked. Ford's Cortina plant is at a standstill and General Motors has closed its car plants for stocktaking.

Meanwhile, new labour disputes hit two textile factories in Natal and a transport company outside Johannesburg. The main cause of the disputes have been demands by black workers for higher wages to keep up with a 16 per cent inflation rate.

Garcia Meza puts down second coup attempt

BY MARY HELEN SPOONER IN SANTIAGO

GENERAL Luis Garcia Meza's 10-month-old military régime in Bolivia has suppressed the second attempted uprising by dissident army officers in 15 days. Loyalist forces regained control of Cochabamba, the country's third largest city, which was occupied by rebellious troops on Monday.

The rebelling troops in Cochabamba had returned to their barracks and the planned revolt had "failed totally," it was announced.

Officials said they had arrested at least seven people linked to the planned uprising, but did not divulge any names.

Gen. Garcia Meza also promised new, repressive measures against any "would-be plotters."

Earlier this month, Lt.-Col. Emilio Lanza, director of the Special Forces training centre in Cochabamba, made a call for Gen. Garcia Meza's removal and said he should be brought before a court martial. Col. Lanza later turned himself over to his superiors, then managed to escape.

Ecuador's new President calls for unity

QUITO — Ecuador's new President, Sr. Osvaldo Hurtado, has appealed for national unity, following the death of the country's left-wing leader, Sr Jaime Roldos, in an aircraft crash on Sunday.

Sr. Hurtado, who was sworn in as President four hours after word of the border-region crash reached here, will finish the five-year mandate which Sr Roldos, 40, began as Latin America's yougest-ever elected head of state in August 1979.

Observers said there was now likely to be a shift to the Centre-Right in the tone of national policies, however.
Reuter

S. Africa wants indigenous electronics sector

BY OUR JOHANNESBURG CORRESPONDENT

THE South African Government is anxious that defence-related industries such as electronics should be South African-owned, according to General Magnus Malan, the Minister of Defence.

Speaking at the opening of South Africa's first cultured quartz crystal facility, Gen. Malan, the former commander of the South African Defence Force and a key adviser to Mr. P. W. Botha, the Prime Minister, gave the clearest indication to date of Government policy towards strategic industries. He also promised that the Government would pay a premium for the local production of strategic equipment.

Several major international electronics companies retain substantial interests in South Africa, such as Siemens of West Germany and Plessey and GEC of Britain. GEC, however, has reduced its stake to 50 per cent, with Barlows as partner. The computer sector is also dominated by foreign companies such as IBM and ICL.

"In the light of the 1978 arms embargo, as well as various other threats of sanctions against South Africa, the Government is anxious that strategic industries, such as the electronics industry, should be in South African hands," said Gen. Malan. Sanctions and boycotts should be seen as an ideal opportunity for South African manufacturers to speed their local production programmes, and make themselves less dependent on imports.

He said that developments like the production of cultured quartz crystal—the vital raw material for quartz crystal oscillators used in communications systems—was "of the utmost importance to South Africa, especially in their application to military uses."

Soviet plan for Cuba oil

BY OUR FOREIGN STAFF

MEXICO is considering replacing parts of the Soviet Union's oil supply to Cuba, which is now almost entirely dependent on Soviet oil for its energy needs.

Under a deal proposed by the Soviet Union, which was discussed in Moscow at the weekend, Mexico would supply oil to Cuba, replacing current supplies sent to Spain. The Spanish supplies, amounting to about 200,000 barrels a day, would be made good by the Soviet Union.

Alternative plans have also been discussed in the event that Spain might not want to go ahead with the deal. In that case, two more Mexican customers, Yugoslavia and India, would be brought into the talks.

Nicaragua: Government and business snarl among the ruins

BY HUGH O'SHAUGHNESSY, RECENTLY IN MANAGUA

"WE WILL make changes in this country with the industrialists, without the industrialists, or in the teeth of the industrialists." The speaker, Commandant Bayardo Arce, a top member of the Sandinista leadership with exercises effective power in Nicaragua, was being his usual uncompromising self as he addresssed a gathering last week of the Ibero-American Association of Chambers of Commerce.

Under the chairmanship of Sr Jose Papa, a leading Brazilian manufacturer, the association had brought together business leaders from Central America in Managua to discuss conditions for business as the Sandinista revolution in Nicaragua moved to its second anniversary.

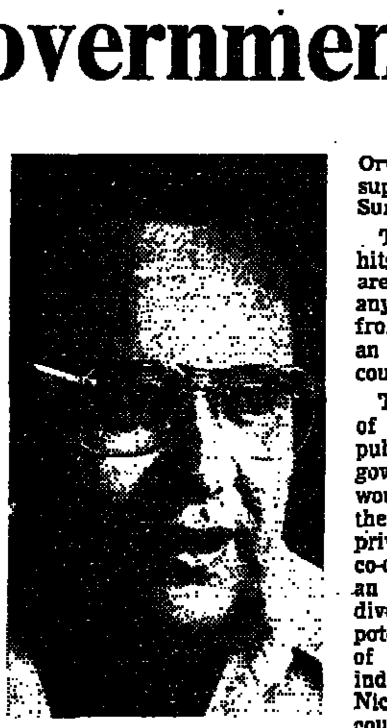
After the speech, a close associate of Commandant Arce remarked: "Bayardo will never say anything softly that he can say bluntly."

Bluntness, however, was not all on one side. As Commandant Arce tok the rostrum at the Camina Real Hotel, the conference delegates had just finished cheering Mgr Pablo Antonio Vega, Bishop of Chontales, an extremely conservative prelate who, without ever openly mentioning the word "Sandinista," had given the distinct impression that the present Nicaraguan Government was going against most of the Old Testament and a good deal of the New.

This sort of snarling between a Left-wing Government and a worried private sector is now a permanent feature of Nicaraguan life. The Government is constantly hinting that private business is doing less than its fair share to reconstruct the country after the insurgency which put an end to four and a half decades of rule by the Somoza dynasty.

The Opposition, led by Sr Alfonso Robelo, his Social Democratic Party, and a number of other political groupings, equally assiduously accuse the Sandinistas of ratting on their undertakings to establish parliamentary democracy.

The principal Opposition voice is the Managua daily, La Prensa, which won its spurs in the fight against the Somoza regime but which has now come out strongly against the new


Father Miguel d'Escoto: touring the Middle East for funds

government. Selling, it claims, more copies than the two pro-Government newspapers combined, it is for ever needling the Sandinistas. A few weeks ago, for instance, it published a Spanish translation of George Orwell's Animal Farm as a free supplement to one of its Sunday editions.

The Government, for its part, hits back saying that elections are to be held in 1985 and that any earlier date would distract from reconstruction and incur an expense that Nicaragua could not afford.

To judge the economic reality of Nicaragua purely by the public pronouncements of government and opposition would, however, be to misjudge the situation. Government and private enterprise are in fact co-operating closely to revive an economy which, in its diversity and productive potential, has the possibility of providing a very good life indeed for just over 2.4m Nicaraguans in the largest country in Central America. It produces gold, cotton, coffee, beef, timber and many other products for export.

The Government estimates that the 1979 war which ousted the Somozas put the economy back 17 years and pushed the per capita gross domestic product, which in 1978 was $871, back to the levels of 1972,

around $600. By the end of last year, however, according to Commandant Arce, 15 years had been made up. "How could such advances have been made without the collaboration of a private sector which controls 80 per cent of farm production and 75 per cent of manufacturing production?" he asked. He went on the claim that most of the private sector was "behaving patriotically and only a minority was pulling less than their weight.

He promised to continue the policy of extending generous credits from the now nationalised domestic banking sector to those industrialists or farmers who needed money for productive purposes.

Combining the stick with the carrot—as always—he warned that the rate of profit some industrialists had come to be shaved.

Although up-to-date production statistics are difficult to come by, the indications are that some major private sector businesses are investing for the future, despite their worries, while others are waiting for better times. British American Tobacco, owners of the local Tabacalera Nicaraguense, which has a local monopoly of cigarette manufacture, has been investing and advertising for new staff. Despite occasional shortages of flour and sugar there is no lack of food in the capital and the main towns, although crop failure in the far north-west is bringing some hardship to Atlantic coast communities. Notwithstanding President Ronald Reagan's decision to halt $25m in aid to Nicaragua, money has been flooding in from abroad, the latest being a deposit of more than $100m from Libya. This has prompted Father Miguel d'Escoto, the Foreign Minister, to undertake a tour of the Middle East and the Gulf in search of more funds.

One senior policy planner went as far as to confess that the Government had made a mistake in normalising things too rapidly and in availing itself too liberally of the offers of money from abroad.

"We could have put up with a bit more sacrifice and a bit less foreign borrowing," he said.

As far as the threat of reduced profits killing off future investment was concerned, the manager of one foreign bank here said many businesses were reconciled to the passing of the fat days of Somoza.

"In the old days, some of the industries which had facilities to operate throughout the Central American Common Market were ordinarily chalking up 100 per cent profits year after year. They're not geting those sort of returns today, but they're still wanting to invest and make money."

Overhanging the fractious but reasonably efficient relationship between government and private sector here today is the generalised fear that Washington under Mr. Reagan will take measures to destabilise Nicaragua. The Government is watching carefully the activities of pro-Somoza forces which are none too secretly training for invasion in Florida. Were the Sandinistas' worst fears to be realised, and invasion to become a reality, the delicate, uncomfortable balance between government and business could be upset, as Nicaragua sought military assistance from Iraq, Libya, the Palestine Liberation Organisation or the Soviet camp in order to resist.

That option is one that both politicians and businessmen are devoutly praying will never come about.

WORLD TRADE NEWS

Russia keen to speed gas pipeline talks with West Germany

BY ROGER BOYES IN BONN

THE SOVIET UNION appears keen to speed negotiations on a major DM 20bn (£4.5bn) pipeline project intended to link the vast Siberian gas fields with Western Europe.

Talks on the deal, which would be one of the largest East-West contracts, ran into trouble earlier this year when a steep rise in German interest rates upset the calculations of the Deutsche Bank-led financing consortium.

But Herr Egon Overbeck, chief executive of Mannesmann, which is bidding for the pipes contract, has declared that the Russians are eager to accelerate the talks.

Two other signs point to intensified Soviet interest in the deal which plays a central part in the Soviet Five-Year Plan.

The first was the visit to Frankfurt last month of Mr. Juri Brezhnev, a first Deputy Soviet Trade Minister and son of the Soviet leader. The Minister was understood to have had talks with Herr F. Wilhelm Christians, joint chief executive of Deutsche Bank about the financing of the gas deal.

The other indication is the recent visit to Moscow of Mr. Vladimir Semyonov, the Soviet Ambassador to Bonn.

There is, however, considerable uncertainty about how the deal should be financed.

The broad outline of the contract is as follows: the Soviet Union intends by the mid-1980s to export to Europe some 40bn cubic metres of gas a year, extracted with the help of Western technology and transported by Western built pipes to Europe.

The Deutsche Bank consortium is trying to finance some DM 10bn of the required DM 20bn which would be repaid in gas deliveries and Germany expects to take about 12bn cubic metres of the Soviet gas.

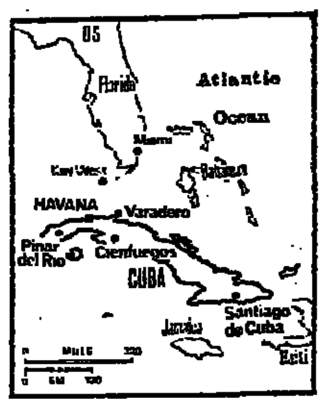
The problem so far has been that an interest rate of 7.75 per cent is as far as the Russians have been prepared to go.

An extra 2 per cent could be derived through higher prices for West German equipment and pipe supplies. But even the composite rate of 9.75 per cent would be considerably below current market rates.

Quite apart from the commercial effects, agreeing to such a rate would certainly have prompted U.S. accusations that West Germany was doing trade with Moscow at preferential rates.

Canute James, recently in Havana, reports on a major new drive to attract more foreign visitors

Cuba aims to put tourism back at the top



THE EXTENSIVE refurbishing at the offices of the Cuban Institute of Tourism (Intur) in the Vedado suburb of Havana reflects fresh plans for an industry which was once a pillar of the island's economy.

"We are aiming to make tourism one of the top four sectors of our economy," said Dr. Gary Gonzalez, Intur's director of promotions, above the din created by workmen.

Cuba last year attracted about 100,000 foreign tourists and although Dr. Gonzalez and other officials in Havana remain guarded about the value to the economy of the visitors, there are indications that Cuba earned an equivalent of $50m (£24m) last year from tourism.

This does not include 100,000 visitors from the Cuban exile and expatriate communities in the U.S.

Cuba's short-term aim is to double the tourist influx. To meet this, $275m has been invested over the last five years in building 30 new hotels, taking the island's hotel capacity to 20,000 rooms. Dr. Gonzalez said another five hotels, with 1,000 rooms capacity, are being built.

The new building is concentrated on Varadero on the north coast, and sections of Pinar del Rio, many if which were well-known playgrounds before the Fidel Castro revolution 22 years ago. The investments have also seen the construction and rehabilitation of cruise ship piers in Havana, Cienfuegos, Santiago and Varadero.

Most of the tourists who visit Cuba fall into two categories—the stoic East Europeans who confine themselves to their hotels and beaches for the duration of their holiday, and the more adventurous visitors from Canada, Western Europe, Latin America and a trickle from the U.S. who apparently prefer the streets of the island's cities, and their nightclubs.

But these visitors, and the many thousands the Cubans hope will come, will find Cuban tourism unmarked by its pre-revolutionary stigmas of prostitution and gambling.

The attractions now, said Dr Gonzalez, are not only the island's beaches and new hotels, but also facilities for hunting, fishing, bird-watching and camping.

Political changes which followed the Castro revolution, and the severing of relations with the U.S., resulted in only 3,000 tourists visiting the island in 1961, a collapse from about 272,000 in 1957, about 80 per cent of whom came from the U.S., and 20 per cent of all tourists visiting the Caribbean.

"We are starting all over again after a 20-year break."

The buildings and infrastructure were neglected until a moderate increase in the number of visitors—39,000 in 1975—stimulated the investment programme and the rehabilitation of the industry.

Although Cuban officials are unwilling to be drawn on the issue, there is tacit admission in Havana that most of the new developments in tourism and the efforts to expand facilities are investments which are expected to pay handsomely if and when relations are normalised with the U.S. Cuba is less than a 45-minute flight from Miami.

"We have an unlimited market in the United States of America," he said. "We do not have enough hotels for the number of visitors we think we could get from the United States." The Cubans are not worried about the rest of the Caribbean, which also depends heavily on the U.S. as a source of tourists. "There are enough tourists in the world for all the Caribbean countries to get," Dr. Gonzalez added.

However, his confidence is not shared by the other Caribbean countries, who frowned on an agreement in principle several years ago between Jamaica and Cuba to organise joint package tours. The fears of other Caribbean islands of the attraction of Cuba tourism were expressed recently by Mr. Livingstone Coakley, Minister of Tourism in the Bahamas, who said the English-speaking countries must "begin to pay attention to Cuba which has launched an extensive tourism programme."

Cuba's proximity to the U.S. is shared by only the Bahamas. Equally important, the level of crime in Cuba is minimal compared, for example, to nearby Jamaica, whose tourism last year and this year has suffered because of the crime in recent years.

EEC urged to restrict concessions on Third World textile imports

BY LARRY KLINGER IN BRUSSELS

EUROPE'S hard-pressed textile industry yesterday strongly urged the EEC to make no further concessions on imports from the Third World and to seek an opening up of markets in other industrialised countries, including the U.S.

Comitextil, the organisation of EEC textile producers, which held its annual conference in Brussels yesterday, called on the European Commission to stand firm during the current Multi-fibre Arrangement (MFA) talks with developing countries and to press for favourable "reciprocal" trade arrangements with the U.S.

While at a loss to produce concrete examples of what Europe should be seeking in its complex trade relations with the U.S., Comitextil made clear that it felt at a disadvantage with the U.S. industry.

There were many expressions yesterday among officials concerning what they see as an overly conciliatory position taken by the Commission during recent trade discusssions with the U.S.

Comitextil believes America's "natural" advantages such as a large, homogeneous market and a labour structure that allows round-the-clock production becomes unfair when coupled with protectionist measures, such as tariffs that are 40 per cent higher on average than the EEC's.

For many European products, says Comitextil, these tariffs are "insurperable."

Comitextil takes a similar position concerning the current talks between the industrialised nations and the developing nations aimed at establishing a new MFA agreement to replace the four-year pact which expires at the end of this year.

The EEC has set an example as an open market in textiles says Comitextil, and should now "mark time"

Japan Minister arrives in Brussels for car talks

BY JOHN WYLES IN BRUSSELS

MR. NACHIRO AMAYA, Japan's Minister for Foreign Trade, is expected to arrive in Brussels today carrying only a partial response to the EEC's demand for restraint on Japanese car shipments to the Ten.

Indications in Brussels are that Tokyo is ready to concede that soaring car exports to the Benelux countries are a problem which must be tackled.

However, it is thought unlikely that Mr. Amaya will accept the Community's demand for a global restraint on car exports to the Ten "analogous" to the undertaking Japan has recently given to the U.S.

While Japan may be ready to give assurances to the European Commission today that the 143,000 vehicles which are barred this year from the U.S. under the recent undertaking will not be diverted to the EEC, it is expected to argue that global restraint cannot be offered because the Community is not a single market for its car exports.

Tokyo has told EEC member states that it could only consider a Community-wide undertaking if France and Italy lifted national restrictions which maintain Japanese car imports at very low levels.

After talks at the Commission, Mr. Amaya is due to meet this evening Mr. Willy Claes, Belgium's Economics Minister, who will press the case for pegging Japan's car exports this year to the Benelux levels of 1979.

Bargaining has already begun on this demand, and a Belgian trade mission recently in Tokyo is said to have been told that Japan would be ready to hold shipments this year at 1980 levels.

The Japanese have suggested that Belgium may be exaggerating the impact of imported cars on locally-based car assembly since 95 per cent of Belgian output is exported.

But the Commission will undoubtedly argue for an undertaking which would embrace other markets as well as Belgium. An expansion of Japanese imports in any EEC country implies a loss of market share for European volume car companies whose profits are already under great pressure.

Taiwan rejects Italian call for footwear exports curb

BY ROBERT KING IN TAIPEI

TAIWAN has rejected a request from Italy for it to agree to voluntary controls of footwear exports to Italy. At the same time, officials here indicate that Taiwan considers its gentlemen's agreement with France, concluded in mid-April, to be void.

Taiwan's footwear exports to Italy, itself a major producer of shoes, climbed 95 per cent in 1980, from 4.4m to 7m pairs. Overall, its experts to Europe increased by 37 per cent over 1979 levels, Footwear Association statistics show.

Officials of the association say that a normal increase in demand, rather than concerted efforts by Taiwanese shoemakers to expand European sales, were behind the increases.

Whatever the cause, the increases prompted the European Confederation of Footwear Industry earlier this year to warn Taiwan that hard-line steps to restrict imports from Taiwan were in the making.

The agreement with France concluded in mid-April, limited direct exports to 11.6m pairs annually. But an official close to the negotiations has now revealed that the accord contained conditions which may now nulify it.

He said one of the conditions specified that France must reach a similar agreement with both Korea and China before June 30, the day before the agreement with Taiwan takes effect.

Flags of convenience come under attack

BY OUR SHIPPING CORRESPONDENT

AN ATTACK on flag of convenience (FOC) shipping fleets, which account for one third of the world's fleet, will be made at a special session of the Committee on Shipping of the UN Conference on Trade and Development (Unctad) in Geneva, today.

The subject of flag of convenience shipping fleets is proving to be one of the most hotly-contested issues in international shipping policy. Basically, the developing countries argue that the existence of large FOC fleets is prejudicial to the growth of their own fleets.

The developing countries control only one tenth of the world shipping fleets but generate the lion's share of bulk cargoes, which account for two-thirds of world trade. By contrast, the developed countries, partly by the use of FOC fleets, control about three-quarters of world shipping fleets.

The developing countries want FOC fleets flying the flags of countries, like Liberia and Panama, to be phased out.

Britain and Malaysia sign investment agreement

BY DAVID TONGE

BRITAIN and Malaysia have signed a bilateral Investment Promotion and Protection Agreement. The agreement, which will enter into force on ratification by both countries, will cover British investments which have been producing an annual return of £200m.

Though their precise value is not known they are estimated to account for more than 75 per cent of British investment in Southeast Asia.

The agreement is also designed to stimulate new investment.

The agreement was signed in London by Mr. Peter Blaker, Minister of State at the Foreign Office and Raja Tan Sri Aznam, Malaysian High Commissioner in London.

In 1980 Britain exported goods worth £224m to Malaysia and imported goods worth £187m.

Reorganised Crown Agents turned from loss to £2m operating surplus last year

BY PAUL CHEESERIGHT, WORLD TRADE EDITOR

THE CROWN AGENTS, reorganised and streamlined since losing £193m on the property markets in the mid-1970s, made an operating surplus of £2.05m last year. This was the first year since its incorporation by Act of Parliament.

The organisation provides services for foreign governments and their agencies, mainly in the Third World. These services range from the procurement of goats for Sabah to the management of funds for Middle East states.

It offers a variety of engineering and environmental services, and plays a key role in the administration of UK aid funds.

The operating surplus earned last year arrests the trend of declining earnings which began in the late 1970s. Under its Act, Crown Agents has a duty to break even. But, as Mr. Sidney Eburne, the chairman, said yesterday, "If you don't budget to make a profit, you make a loss, as sure as God made little apples."

Out of the operating surplus, Crown Agents paid £915,000 in interest charges to the Government last year to service the £30m it received as a capital loan from the Government to re-establish it after the upheavals of the 1970s.

The Act under which the Crown Agents now operates pulls the organisation firmly back to the traditional activities—the provision of government-to-government services—in which it had been engaged since 1833.

The provision of these services was overshadowed in the 1970s, from a domestic point of view, by heavy lending to property companies in the UK and Australia. This left Crown Agents expensively and embarrassingly exposed when the property market collapsed. A sum of £175m had to be provided by the Government to meet losses.

The freedom of Crown Agents to become involved in this way was at least partly the result of its imprecise status. With incorporation, this problem has been resolved. The aftermath of the property losses is now being handled by the Crown Agents Holding and Realisation Board, which reports separately next month.

With the effects of this episode hived off, Crown Agents' approach to its traditional work has been reorganised.

The influence of private commerce in its operations has become more evident. "We have virtually stood Crown Agents on its head," said Mr. Eburne.

"This first result (since incorporation) shows a movement in the right direction," he added.

But it may be difficult to hold the direction.

The increasing financial difficulties of the smaller Third World countries, Crown Agents' natural source of business, and the reduction of Britain's aid programme, have meant that there is no easy way to maintain the flow of fee income on which Crown Agents depends.

Crown Agents has responded by being more aggressive. "For the first time we have gone out to market our services. We can't wait for the business to come—we have to find out what the customers want," said Mr Eburne.

Geographical directorates have been established to spearhead the marketing of Crown Agent services. They can call on the 22 divisions, or different businesses, in which Crown Agents services are grouped.

Each of these businesses has become an independent profit centre with a rolling five-year development plan. The service divisions are now talking to the marketing people.

Latest figures show that, with the exception of engineering advisory services, the operating income of the main divisions held up during 1980. As foreign governments rushed to complete the procurement plans in the last quarter of the March financial year, Crown Agents had a March quarter surplus of £1.1m.

One reason why last year's figures held up was because of increases in fees charged. Another was that, as the aid supervision work from the Overseas Development Administration declined, Crown Agents sought and found work at international institutions such as the World Bank.

Crown Agents has been handicapped by Civil Service staff costs and heavy accommodation charges. To meet these, staff was cut last year by 10 per cent to 1,964. There will be a similar cut this year. One office block has been sold for £7.8m. Two smaller leasehold properties will be released.

Leyland launches its latest 24-ton truck

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

LEYLAND VEHICLES, the BL subsidiary, today launches a replacement for its Bison 24-ton six-wheel truck, which is a market leader.

The replacement, shown left, forms part of the T45 range of vehicles being produced at the £31m new assembly-hall at the plant in Leyland, Lancs.

Bison has been accounting for about 45 per cent of its particular segment of the UK market which, although small, is highly profitable for the manufacturers.

In a normal year, sales of six-wheel 24-tonners in Britain run at about 5,000. But they have been hit hard by the recession and in 1980 registrations are forecast to have dropped to 3,000.

The new trucks take the collective T45 name of Constructor. Two engines are offered with either six or nine-speed gearboxes and three wheelbases. They are designated Constructor 24.21 or 24.18 depending on the engine selected.

Launching the Constructor means that Leyland has now completed the launch of three of the four T45 truck "families."

First came the top-weight Roadtrain models, then the Constructors for the construction industry and the medium-weight Cruiser vehicles for general haulage. Still to come are T45 models taking the range down to 16 tons.

Transport report next week

Financial Times Reporter

THE HOUSE of Commons Select Committee on Transport will publish a report next week on advanced ground transport systems, including prospects for sale of British AGT systems in Britain and abroad.

The report will include information on the state of research and development of advanced systems in Britain, and will be published with a report by Sir Henry Chilver, vice-chancellor of Cranfield Institute of Technology, on advanced ground transport.

The committee will start taking evidence next week as part of its inquiry into Government plans to sell the heavy-goods vehicle testing stations to the private sector.

Companies advised on car fleet cuts

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

SOME COMPANIES are trying to cut the cost of their car fleets—probably the most expensive employee benefit after the pension scheme.

But companies should be careful not to inflict another blow to employees' morale in already difficult circumstances, according to the authors of a 45-page Company Car Policy Guide.

There are some changes which can be made without significantly affecting the benefit of a company car to the employee. Yet these changes make a worthwhile saving to the running costs of the fleet.

Companies trying to hold down the expected increases in their car fleet costs in 1981 can review their allocation policies by:

- Reconsidering arrangements for issuing cars to employees for whom a car is essential.
- Checking whether the status level within the company at which a car is given needs lifting, if only for new entrants to a given grade.
- Encouraging employees to provide their own cars by giving a generous mileage allowance.
- Checking whether the cars provided to employees at given grades are more expensive than those offered by other companies.
- Reducing the size of the car allocated, perhaps offsetting the impact by giving a smaller but more luxurious vehicle.
- Reducing the frequency of replacement, even this increases costs in the long run.
- Reducing the choice of cars to those which have a good residual value and are economical to maintain and run.

A company can also reduce costs by arranging for employees to meet excess insurance costs if they have poor accident records.

It can review its policy on petrol for private mileage, and it can increase the employee's contribution for private use of the company car.

Company Car Policy Guide by Tony Vernon Harcourt and Norman Donkin, Monks Publications, Debden Green Saffron Waldon, Essex CB11 3LX, £21.

Mine group has fastest growth rate

By Robert Cottrell

BRITAIN'S fastest-growing company over the last 10 years was Sheffield mining and construction group Burnett and Hallamshire, according to a survey by Management Today magazine.

The magazine ranks the 200 largest quoted groups with substantial UK manufacturing or retailing interests. B and H scores a "growth rating" of 2.597, representing the total return over the period 1971 to 1980 expressed as a percentage of shareholders' original capital. Racal, the electronics group, ranks second with 2.090, followed by rubber and plastics group BTR at 2.033.

The common denominator of the growth companies is, Mr Robert Heller, editor of Management Today, that they exploit "narrow opportunities to the broadest possible extent."

Major companies ranking low for the 10 year period include BAT Industries, 180th on a growth rating of 36, with Courtaulds, Turner and Newall, Tube Investments and GKN finishing lower still. Bottom-ranked is Burmah Oil, with a minus 34 rating.

The median growth rating of 166 is, says Heller, equal to a compounded 9.4 per cent, the same as the 500 largest American companies ranked by Fortune magazine achieved over the same period.

Nuremberg goblet fetches £2,300

THERE WAS a post-holiday calm in the salerooms yesterday. Sothebys sold silver for £49,098, with top prices of £2,300 for a Nuremberg engraved goblet and cover and £1,700 for a Lanenstein gilt and engraved goblet of the mid 18th century.

In weekend sales Sothebys disposed of porcelain in Zurich for £325,936 with Williams, the London dealer, paying £34,883 for a pair of Du Paquier commedia del' arte figures produced in Vienna around 1735. The final sale in Sotheby's Impressionist and Modern pictures week in New York totalled £1,316,531 for drawings and watercolours with a record price of £119,617 for a Klee watercolour "Vor der Stadt."

Thousands take to high risk catering

THE recession appears to have made no impact on the growing number of people who want to buy their own hotel or catering businesses, the Hotel and Catering Training Board, says.

The Board is worried by the high rate of business failures in the industry, with half the 25,000 ventures set up each year failing within two years. In a report on its training courses, the HCITB says many people enter catering with little or no idea of the problems.

Europe urged: Don't over-tax the tourist

EUROPEAN governments should beware of over-taxation in tourism, Sir Henry Marking, chairman of the British Tourist Authority, told a conference in Lisbon, Portugal, yesterday. Tourism, a massive employer, could be one of Europe's fastest growing businesses, he said.

Sir Henry went on: "I suppose it is inevitable that governments should want to tax a successful industry. But I would warn that they could go too far and kill the goose that lays the golden egg."

More than 7 per cent of EEC private expenditure went on tourism, he said, and some 4m people were directly employed within the industry.

Justice 'depends on where you live'

YOUR CHANCES of obtaining justice can largely depend on how bright you are, whether you are physically fit and where you live, according to a report published today by Justice, a lawyers' reform group, and All Souls College, Oxford.

The report, aimed at promoting discussion on ways to improve the British legal system, claims legal guidance is more readily obtainable in some areas than others.

Labour seeks to exploit Bow Group criticisms

BY OUR LOBBY CORRESPONDENT

THE LABOUR PARTY yesterday tried to maximise the Government's embarrassment over an attack on its policies contained in the latest issue of Crossbow, the journal of the Conservative Bow Group.

Mr. Stan Orme, the shadow Industry Minister, claimed that the broadside was further evidence of the divisions within the Tory party over industrial policy.

In the same vein, Mr. Denis Healey, the shadow Foreign Secretary, maintained that the article was "just one more example of a Conservative collapse of confidence."

For its part, the Conservative Party was understandably anxious to play down the importance of the article and to point out that its author—Mr. Richard Barber—was speaking only for himself.

Downing Street took the same disdainful view. Nevertheless, there is little doubt that Mrs. Thatcher, with her strong views about party loyalty, has been irritated by this latest example of public dissent within the Tory ranks, and that the article has touched a number of raw nerves within the party.

The leader article, published in yesterday's issue of Crossbow, accused the Government of having almost totally failed to reduce the scope of the public sector, and of throwing away its election chances.

It also bitterly attacked the record of Sir Keith Joseph, the Industry Secretary.

It claimed that his performance had been "by universal consent the most dismal disappointment of this administration," and called for his transfer to a less demanding post.

The Bow Group, founded by Sir Geoffrey Howe and other young Tories from Oxford, is one of the Conservative Party's more influential pressure groups.

Sir Keith went out of his way earlier this year to try to explain to its members precisely what he was trying to achieve at the Department of Industry.

The Crossbow leader does not purport to represent the views of the whole group. However, its criticisms are similar to those made privately by many Tory backbenchers, who feel that Sir Keith has lost sight of his purpose, and that he is not temperamentally suited to such a demanding job.

Only a tiny minority of Tory MPs are prepared at this stage to say in public that he should be moved. But many believe that Mrs. Thatcher will eventually decide to move him—despite her considerable personal loyalty to him.

The Crossbow attack, however, seems very unlikely to hasten any such move. Indeed, in the short term, it is likely to increase Mrs. Thatcher's determination to stand by Sir Keith.

In the article, Mr. Barber argues that the Government's strategy appears to be "to muddle through to the next election hoping that a combination of North Sea oil and a Labour split will somehow conjure victory out of defeat."

The prospect now, he says, is a "dismal" one. The Prime Minister achieved a clear mandate at the last election for a radical reform of the economy, "yet she has so far failed to achieve it."

It is not enough, he says, to lay the blame on the so-called Cabinet "wets."

With the Government approaching the middle of its term of office, Mr. Barber maintains that there may well be a case for the Prime Minister exerting her authority and calling for greater loyalty from her Cabinet. Ministers, he says, cannot escape collective responsibility—and those who seek to do so should be replaced.

Stock Exchange council wants higher income from members

BY CHRISTINE MOIR

STOCKBROKERS and jobbers must contribute more to the running of the Stock Exchange, the council warned in its report and accounts published yesterday.

Services provided by the exchange in the year to March 24 cost £1.6m more than the income received from members' contributions. The figures kept in profit only because of about £2m of interest from investments.

After tax of £3.2m and a transfer from special reserves of £1.5m to cover costs on new developments, there was a mere £301,000 surplus for the year in current cost terms. On the same basis, the previous year's surplus was £1.6m.

This level of surplus "cannot be welcomed as an appropriate contribution to the level of reserves required to support the growing scale of business operations," the council said yesterday.

In looking ahead to the current year the council fears that the cushion of high interest rates on investments may not always exist and liquid funds and reserves could reduce.

As a result it warns members that it will have to be looking to income sources to restore cash flows necessary to replenish liquid reserves.

Income from the general service charge last year declined fro £5.9m to £3.9m, partly as a result of lower overall volume in market trading, but also because the charge was reduced last year.

On Friday the council announced a 50 per cent increase in the charge, ostensibly to cover the interim costs of the collapse of Hedderwick Stirling Grumbar and Norman Collins this year which will put an immediate strain on the Compensation Fund.

This stood at £1.5m at the year end, compared with £1.28m the previous year, but the balance has not been adjusted to take account of about £3½m of claims expected to be made on it as a result of the two crashes.

The Stock Exchange commissioned a revaluation of its tower office block last year—the first for four years. This threw up a surplus of £29.6m as a result of which the current cost balance sheet shows net assets and capital and reserves up by £29.8m to £102m.

In historic terms the increase is from £53.1m to £97.5m. Working capital positions have also improved by £603,000.

The report to members outlines a number of significant projects. Completion of the long drawn out review of commissions is promised for this year. The committee studying the introduction of computerised settlement for gilts dealing expects to see the system running by early 1984.

A special committee is also reviewing members' procedures in carrying out transactions for discretionary clients and will shortly make recommendations to council.

The council is to maintain its pressure on the Government in an attempt to quash investigation of its rule book by the Restrictive Practices Court.

Mr Nicholas Goodison, the council's chairman, promises to continue to seek the abolition of Capital Gains Tax and the investment income surcharge "when the time is right."

Move to link viewdata standards

BY GUY DE JONQUIERES

EUROPEAN telecommunications have launched a peacemaking initiative aimed at harmonising the standards for viewdata—low-cost electronic information systems—on both sides of the Atlantic.

The move, which may have important consequences for development of the international viewdata market, potentially worth several billion dollars, is led by British Telecom and its French and West German counterparts.

It could open up transatlantic trade in viewdata equipment and technology and lead to collaboration between European countries, the U.S. and Canada on development of advanced viewdata systems.

Last week the 26 West European telecommunications authorities agreed on a common standard for viewdata in about two years' time. It will bridge the technical differences between Britain's Prestel and systems developed in France and West Germany.

But American Telephone and Telegraph, the large U.S. telecommunications group, has said that it is adopting a different technical standard.

Transatlantic rivalry has run high, each side claiming advantages for its system. A bruising commercial battle for sales to third markets seems probable.

Mr. Richard Hooper, director of Prestel, said in London yesterday that the basis for a world viewdata standard could be achieved if AT and T agreed to make minor technical modifications.

MP calls for investigation of Salvation Army

THE GOVERNMENT is to be urged to order an inquiry into the running of the Salvation Army following allegations in a television programme about the use to which funds are put.

Mr. Robert Kilroy-Silk, Labour MP for Ormskirk, said he would press for the inquiry because of "extremely disturbing allegations" in the ITV programme, For God's Sake Care.

He said there were allegations that poverty-stricken inmates of Salvation Army hostels had to pay for food and clothing, that money collected in public houses was used to fund the army's newspaper War Cry and that money collected at band concerts was not used for the welfare of the poor but for the upkeep of uniforms and instruments.

A reporter involved in the TV investigation dressed as a down-and-out and pleaded at Salvation Army hostels for a bed. He claims to have been refused several times.

Mrs. Winnie Cu rtis of Cambridge, a 72-year-old widow, said yesterday that, after spending £20 at a Salvation Army charity shop, she was charged £2 for delivery because she could not carry the bulky goods home in her wheelchair. The £2 was refunded.

35,000 gas customers cut off for month

By Gareth Griffiths

THE NUMBER of gas disconnections for non-payment in the UK last year was 41,846. Nearly 35,000 customers were cut off for more than a month, the National Right to Fuel Campaign group said yesterday.

In a letter to Mr David Howell, the Energy Secretary, the campaign said the number of gas disconnections last year was the highest ever. A third of those disconnected did not get their supplies back and had to turn to more expensive forms of heating.

BAe forecasts £12m profits rise

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BRITISH Aerospace, the aircraft, missiles and space manufacturing group, which earned a pre-tax profit of £53m in 1980, is forecasting a pre-tax profit of about £65m for the current year.

Sir Austin Pearce, chairman, in the group's annual report for 1980, says he looks to the future "with confidence," justified, he says, by the current trading position and the order book of close to £3.5bn.

"While recent cuts in the UK defence budget will have some impact on our business, we are confident that any short-term problems can be overcome and that, in the longer term, we have products available or in development which are relevant to the UK's defence posture at home and overseas and as a member of Nato."

The results for 1980, already announced, in addition to the pre-tax profit of £53m included sales of more than £1.42bn, of which £789m were for export.

Sir Austin says: "The 1980 results show that the company is in good shape. The profits are better than estimated at the time of the Offer for Sale and, with a good order book and with good products, we have the basis for even better sales prospects in the future."

Commenting on the group's major projects, Sir Austin says the new BAe 146 feeder-liner is soon to make its maiden flight, "and the present market outlook for this type of aircraft augurs well for a successful project extending at least to the end of this century.

"The Airbus A-300 and A-310 are now both well established in the market, and the first A-310 wings will shortly be delivered by the company. The prospects overall for the company's participation in Airbus Industrie are good."

The report shows that at the end of 1980, the volume of orders on hand amounted to close to £3.5bn, against just less than £3.3bn a year earlier. Of these orders, about £2bn were for export.

Sir Austin says the board expects to pay an interim dividend of 3p a share in November, and to recommend a final dividend of 4.8p a share in May 1982.

He makes a strong plea for "consistent Government policies" towards aerospace affairs.

"It is through consistency that we develop customer confidence in our products and create a future for our employees and shareholders and a worthwhile contribution to the national effort," he says.

Hopes revived for Cornish tin mining

FINANCIAL TIMES REPORTER

DESPITE the recent announcement that Shell's subsidiary Billiton is to put its Cornish tin operation into mothballs, a flurry of planning applications is raising hope of eventual recovery in metal mining in the West Country.

The most promising of these is the plan by Bermuda-based Hemerdon Mining and Smelting for a tungsten mine in South Devon which is intended ultimately to employ 400 workers.

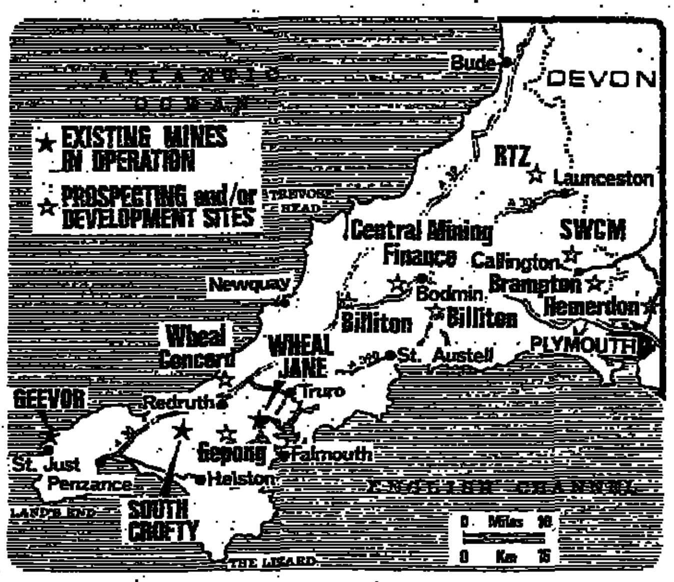
But it is the applications on the Cornwall side of the Tamar River—a vital transport link for ore a century ago—which have been responsible for revival of hopes.

Cornwall County Council planners have received at least one application a month for the last year for tin mining schemes.

Next month the county's planning committee is expected to give approval to a scheme by Dundonian's subsidiary, South West Consolidated Minerals, to reopen Redmoor Mine on the outskirts of Callington, East Cornwall, where the last mining activity vanished 55 years ago.

According to Mr. Ronald Potts, SWCM's director, the scheme would cost £15m, could eventually meet 20 per cent of Britain's tin needs, and give work to 650.

Other mining planning applications in Cornwall in recent months mainly concern prospecting. But the council sees signs that by the turn of the century the tin industry could double its workforce. It now employs about 1,400, excluding the 180 who are losing their jobs with Billiton's decision to close Bissoe Valley and the Mount Wellington mill.



Geevor, with a mine near Land's End, has obtained planning approval to prospect on the eastern side of Bodmin Moor, close to an area where mining ended before the turn of the century.

Robertson Research International, geological and mining consultants, is involved in a company called Black Rock Mineral Ventures in a prospecting programme over more than 1,000 acres on the south eastern edge of Bodmin Moor.

This is close to some of the most extensive abandoned mineral workings of the last century and the village of Darite which owes its existence to 19th century mining.

Billiton has been drilling on the Goss Moor, the open country that straddles the A30 in the centre of the county, and has now got planning approval to drill on another mid-Cornwall moorland. It says its decision to halt production at Bissoe will not affect these operations.

Central Mining Finance has put in an application to drill 10 exploratory boreholes near old mineral workings at Lanivet, three miles west of Bodmin. Kernow Tunnelling is prospecting in the previously long-disused Wheal Concord Mine, north of Redruth. Gopeng, originally a Cornish company which later had tin interests in Malaysia, is back in its homeland with drilling plans for a site near Helston.

Rio Tinto Zinc — the company that reopened Wheal Jane — is seeking approval for four drillings for lead and zinc in a valley at Egloskerry, just west of Launceston. Brampton Resources is seeking approval to explore abandoned mines in east Cornwall, close to SWCM's Redmoor site.

The agent for Brampton is Mr. Roger Harrisson, who learned the business in Cornwall in the 1940s at the Camborne School of Mines. Brampton's plans include the leasing of mineral rights over 900 acres from the Duchy of Cornwall — which provides Prince Charles with most of his income.

Mr. Calvert Armstrong, whose company ACA Howe International is advising Brampton, says he expects prospecting will confirm that a tungsten mine could be successful.

But the Cornish population mostly view it all with traditional suspicion. Mr. John Foster, TGWU district secretary, who played a vital part in the scheme which persuaded RTZ to save Wheal Jane, said: "With this sort of situation we have learned from experience over very many years that you need to wait and see."

Banks refuse credit to Scottish councils

BY ROBIN PAULEY

A GROWING number of banks and building societies are refusing to lend money to Scottish local authorities because of fears of possible defaults resulting from local government legislation for Scotland.

They have been strongly criticised for their attitude by Mr. Noel Hepworth, director of the Chartered Institute of Public Finance and Accountancy. He has said they ought to distance themselves from political arguments about council spending which do not affect the underlying security of the local government financial system.

The controversy has arisen over the Local Government (miscellaneous provisions) (Scotland) Bill, now awaiting its report stage in the House of Lords.

This Bill gives the Secretary of State for Scotland wider powers to intervene than exist in England and Wales if he thinks a council is levying too high a rate or spending too much.

The Bill will enable the Government immediately to withhold grants from a council which refuses an order to cut its rates. As there is no possibility of a supplementary rate, this could leave a council without funds or the possibility of borrowing unless the Bill is amended before it completes its parliamentary process.

Mr. Malcolm Rifkind, Scottish Home Affairs and Environment Minister, was applauded at the Scottish Conservative conference recently when he said the provisions would give the option of relief for the "hard pressed ratepayer."

The Government was determined to act against those authorities whose spending was, by any reasonable criterion, excessive. They would have the simple choice of reducing the rates or giving back a similar sum to the Government.

The first test of the legislation is expected to be in Lothian. Its spending levels are considered by the Government as unreasonable.

This prospect is unnerving the City, quite unnecessarily in Mr. Hepworth's view.

"The City needs to recognise that differences of political opinion can and do exist between central and local Government and that these differences can be exaggerated for political reasons," he said. But this should be distinguished from the underlying security of the local Government finance system.

It was not in the interests of local authorities to fail to meet their debts, no matter how extreme their views.

APPOINTMENTS

Changes at BET

Mr Hugh Dundas, who has been managing director of BRITISH ELECTRIC TRACTION, since April 1973, has been additionally appointed deputy chairman of the company. Viscount Colville of Culross becomes an executive director, relinquishing his present post as non-executive deputy chairman.

★

Mr Geoffrey Knowles, managing director of Stroud Riley (Pty), has been appointed to the main Board of STROUD RILEY DRUMMOND.

★

Mr R. M. Hughes, managing director of Concordia Electric Wire and Cable, has been elected president of THE ELECTRIC CABLE MAKERS CONFEDERATION. Mr O. S. Johnson, chairman of GEC Wire and Cables Group, has become vice president.

★

Mr Roy Fox of BRITISH SHIPBUILDERS has been appointed to the offshore divisional board. He will serve in a part-time capacity.

★

Mr Allan G. Hunter has been appointed to the Board of PEABODY HOLMES as director and financial controller. Mr Hunter was financial controller and company secretary of Bryans Southern Instruments.

★

Mr George Howd, marketing director of Shell Chemicals (UK) has been elected president of the BRITISH PLASTICS FEDERATION for 1981-82, succeeding Mr John Parsons, of Francis Shaw.

★

Mr Leonard G. Hall has been appointed a non-executive director of SHARP UNQUOTED MIDLAND INVESTMENT TRUST, Birmingham.

★

Mr John Peyton, chairman of Texas Instruments, has been appointed to the newly-formed board advisory council of TEXAS INSTRUMENTS INC.

★

Mr E. J. Aaronson has joined the board of P.M.A. HOLDINGS as a non-executive director. He is chairman and chief executive of G.R.A. Property Trust.

★

Mr Jess Bhabra has been appointed an associate director of STREETS FINANCIAL.

★

Mr. B. W. Fickling has been appointed chairman of the MEDICAL SICKNESS FINANCE CORPORATION.

OVERSEAS

Mr. Cyrille Gistelinck and Mr. Frank de Maere have been appointed joint managing directors of S. A. FENCHURCH EUROPE INSURANCE BROKERS N.V. in Brussels. S.A. Fenchurch Europe is a member of the Guinness Peat Group.

★

FOOTE, CONE AND BELDING COMMUNICATIONS INC. has made the following appointments: Mr Norman W Brown, executive vice president and general manager of the Chicago office, has been made president and chief operating officer of Foote, Cone and Belding Communications. (The office of president has been vacant since the first of the year.)

Mr David Ofner, president of Foote, Cone and Belding Advertising, has become chairman of FCB Advertising and will have responsibility for the Chicago office, Carl Byoir and Associates, Deutsch, Shea and Evans and corporate business development.

Mr Abbott C Jones, executive vice president and general manager of the New York office, has been named president of FCB Advertising, and will in addition have responsibility for Aitkin-Kynett, FCB's agency in Philadelphia.

★

Mr Giles Davison has been appointed general manager in Belgium of BARCLAYS BANK INTERNATIONAL from July. Mr Davison, general managers' assistant of Barclays Bank SA in France, will be succeeded by Mr Geoffrey Guinness, general managers' assistant, Barclays Bank International, head office.

★

The chief executive of BARCLAYS BANK SA in France, M. Pierre de Lalande, has been appointed a vice-chairman and general manager.

★

Mr Arthur C. Goode has retired as principal partner of A. C. GOODE AND CO., Australian stockbrokers. He founded the firm 23 years ago and will remain associated with the firm as a consultant. Mr Kenneth A. Hyden, presently managing partner, will become senior partner from July 1.

UK NEWS

Britain's defences: The Royal Air Force

The bill for guarding the West's air space

THE RAF, with a front-line squadron strength of 52 aircraft squadrons and eight missile squadrons, amounting to 93,500 people, has several major roles.

Primarily, it is required to contribute long-range tactical strike and attack forces in support of Nato, and provide close tactical air support for the forces on the battlefield of central Europe. In addition, it is required to provide the air defence of the UK and support for the maritime defence of the UK and Nato's western approaches and seaboard.

All its front-line forces are either assigned to Nato, or available to support Nato operations as required. Some of its training aircraft, such as Hawks, are being equipped as light combat aircraft, and these can be used for local defence or made available to Nato if required.

This means, that some of its front-line squadrons, notably the air defence fighter aircraft, missiles and radar, come under the direct control of the Nato supreme commander all the time. The other units remain under national control in peacetime, only coming under the supreme commander in time of tension or war.

A detailed analysis of these various roles, and the aircraft required, shows that some major re-equipment will be needed soon to supplement new aircraft, such as the Anglo-West German-Italian Tornado multi-role combat aircraft, now entering service (of which 365 are being bought, at a total cost of well over £5bn).

Michael Donne looks at the equipment decisions needed to maintain the RAF's twin tasks of defending Britain and contributing to the forces available for the defence of Nato.

Among the new aircraft needed will be a replacement for the Jaguar jet strike-trainer in the tactical role.

Eventually a replacement will be needed for the Harrier vertical take-off and landing close battlefield support aircraft.

Efforts to put together a prospective European consortium to develop a European Combat Aircraft (ECA) with France and West Germany, to replace the Jaguar, have foundered, and British Aerospace is working on private venture studies to meet this requirement, in the hope that eventually one or more may be adopted by the RAF.

For the Harrier replacement, the choice lies between linking with the U.S. to build the advanced AV-8B version, developed by McDonnell Douglas with support from British Aerospace, or undertaking the all-British Mark 5 "big wing" version of the existing Harrier.

The preferred option in Whitehall, and in the aerospace industry, is for joint work with the U.S. on the AV-8B. This will not only enable the UK to build all the aircraft for the RAF (up to 100 are envisaged) but also gain a substantial share of airframe and engine work on the AV-8B for the U.S. Navy and Marine Corps, which need at least 336 aircraft, together with a share in sales of AV-8Bs for other countries.

Rolls-Royce and Pratt and Whitney would also be involved in such a programme, on the Pegasus engine, with Rolls-Royce getting up to 75 per cent of the engine work on the U.S. aircraft, and all the engine work for the RAF aircraft.

Strike and attack role

Although there is a Polaris nuclear missile-carrying submarine deterrent force, due to be replaced eventually by the *new Trident missile system, the* RAF has for long held a supporting nuclear role for strike and attack.

The RAF's six squadrons of long-range tactical Vulcan bombers (originally built to carry the nuclear deterrent when that was the sole responsibility of the RAF) and amounting to about 70 aircraft, can now carry nuclear bombs. In this role of long-range, low-level attack, the Vulcans support the deterrent, as do the F-111s of the U.S. Air Force stationed in the UK.

But the Vulcans, all based in the UK, are ageing. They are due to be replaced progressively by the strike version of the Tornado multi-role combat aircraft, of which the UK is buying 220, costing about £11.4m each.

The Tornado will have a shorter range than the Vulcan, and it is partly to overcome this that the deployment of up to 160 Ground Launched Cruise Missiles (GLCMs) is planned, as part of the improvement to Nato's Theatre Nuclear Forces.

In addition, the Tornado will be required to penetrate behind the enemy's lines, to attack troop concentrations, supply depots, airfields and other targets, with conventional or free-fall nuclear weapons if necessary.

To meet all these roles, the Tornado is equipped with terrain-following devices, to enable it to fly supersonically, over even the roughest terrain, under the enemy's radar cover.

Support in Europe

The RAF is also required to contribute the UK's share of the tactical support for the allied armies in the Central Region of Nato, in Central Europe.

Its contribution to the Second Tactical Air Force comprises 11 fast jet squadrons, and one helicopter (transport) squadron.

Of these, there are two Buccaneer squadrons, four squadrons of Jaguars, two squadrons of Harrier vertical take-off aircraft, one reconnaissance squadron (Jaguars) and two air defence Phantom squadrons.

The Buccaneers and Jaguars, although they could also be given tasks of selective air attack in the strike role with nuclear weapons, are basically designed to disrupt the movement of enemy forces either on or behind the battlefield.

The Harriers are primarily intended for close battlefield support, attacking tanks and armoured vehicles.

The RAF component in Germany also includes one squadron of Bloodhound and four squadrons of Rapier ground-to-air missiles for anti-aircraft defence, and one squadron of the RAF Regiment for the ground defence of airfields and other installations.

In all, the RAF has about 200 Jaguars, over 100 Harriers and over 60 Buccaneers.

It is generally accepted that the Nato air forces in West Germany are outnumbered about 2.3 to 1 in tactical aircraft (about 1,150 for Nato to 2,700 for the Warsaw Pact countries).

If the Rhine Army were to be cut back it seems likely that Britain's Nato allies would look for a compensating increase in the UK's tactical air contribution to offset this.

Air defence

The third major task for the RAF is the Air Defence of the UK. The Soviet Union has about 500-600 heavy bombers available to attack the UK and the Western seaboard of Nato.

Some of these, such as the supersonic Backfire bomber, have the range to come in through the "back door," down through the Greenland-Iceland Gap into the North Atlantic, to attack from the West.

The first objective of the RAF in the air defence role is to detect this infiltration. This is done by a single squadron of Shackleton Airborne Early Warning aircraft, patrolling far out into the North Atlantic, supported by Victor aerial refuelling tankers, and by the ground-based radar system.

Once targets have been detected and identified, there are five squadrons of Phantoms and two of Lightnings kept at a high stage of readiness in the UK to intercept. Hardly a day goes by without some of these jets being "scrambled" to intercept enemy Bison or Bear aircraft, and the average is five interceptions a week.

The Airborne Early Warning version of the Nimrod, now under development, supported by a new system of Air Defence Ground Environment (UKADGE) radars, will improve the detection of Soviet interlopers.

The Victor tankers are to be supported by a new force of VC-10 tankers now being modified for the job. Eventually, the Phantoms and Lightnings will be replaced by the new F-2 air defence version of the Tornado, of which the UK is buying 165, costing £14.3m each.

Behind the fighter screen, Bloodhound and Rapier surface-to-air missiles provide a further line of defence. Rapier gives cover at short-range against low-level air attack, while Bloodhound gives medium-range protection.

A new medium-range ground-to-air missile is needed for the future, and it is hoped it can be developed in collaboration with Nato allies.

Maritime support

The RAF is also responsible for contributing to the maritime defence of Nato's Western Sea Approaches, as well as of the UK's own sea lanes and ports.

For this purpose, four squadrons of Nimrod long-range maritime reconnaissance jets are available for the detection and destruction of enemy submarines and surface ships.

These aircraft range far out into the North Atlantic and even down into the South Atlantic.

Shore-based defence cover for the Royal Navy is provided by two squadrons of Phantoms, and there are two squadrons of Buccaneers armed with Martel missiles and laser-guided bombs for attacking ships. Eventually the Buccaneers and Phantoms will be replaced by the Tornado for this also.

Other roles

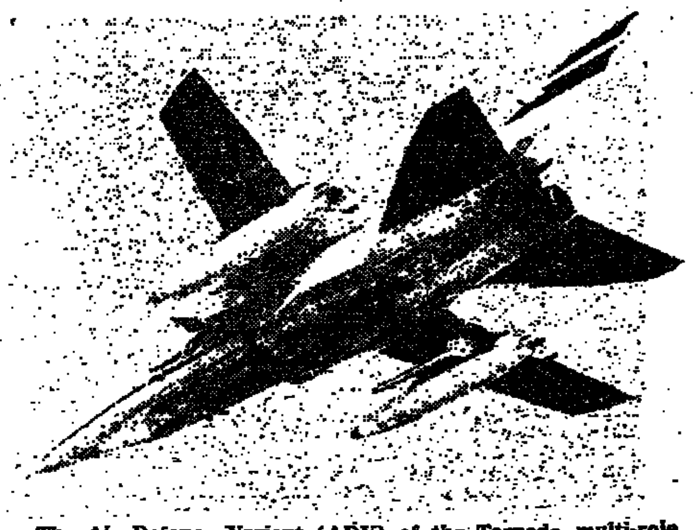
There are various other roles for the RAF. Training is vitally important, and the RAF has taken delivery of over 160 of the 176 Hawk trainers on order. These can be fitted with Sidewinder missiles, to create a local air defence capability.

The RAF also provides support for UK forces overseas, with one Whirlwind helicopter squadron and one squadron of the RAF Regiment in Cyprus, one squadron of Wessex helicopters in Hong Kong, where they help to control the illegal immigrant problem, and a detachment of four Harrier aircraft, four Puma helicopters and a Rapier missile air defence unit in Belize.

Transport is another major role, and there are in all one squadron of VC-10s long-range and four squadrons of Hercules medium-range transports and various Wessex and Puma squadrons in the UK and a Wessex squadron in Germany. These are being joined by the new 33 Boeing Chinook medium-heavy lift helicopters for transport and other duties.

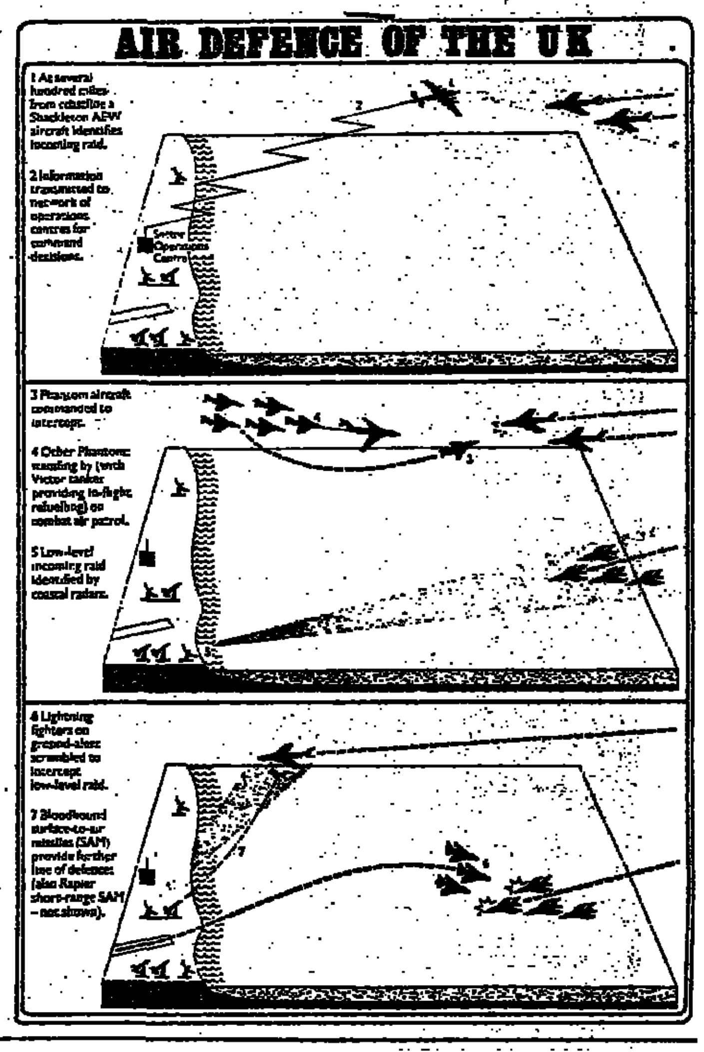
The RAF's Search and Rescue duties round Britain's coasts are famous. Two squadrons of Sea Kings and Wessex and Whirlwind helicopters rescued 834 people in 1,173 missions last year.

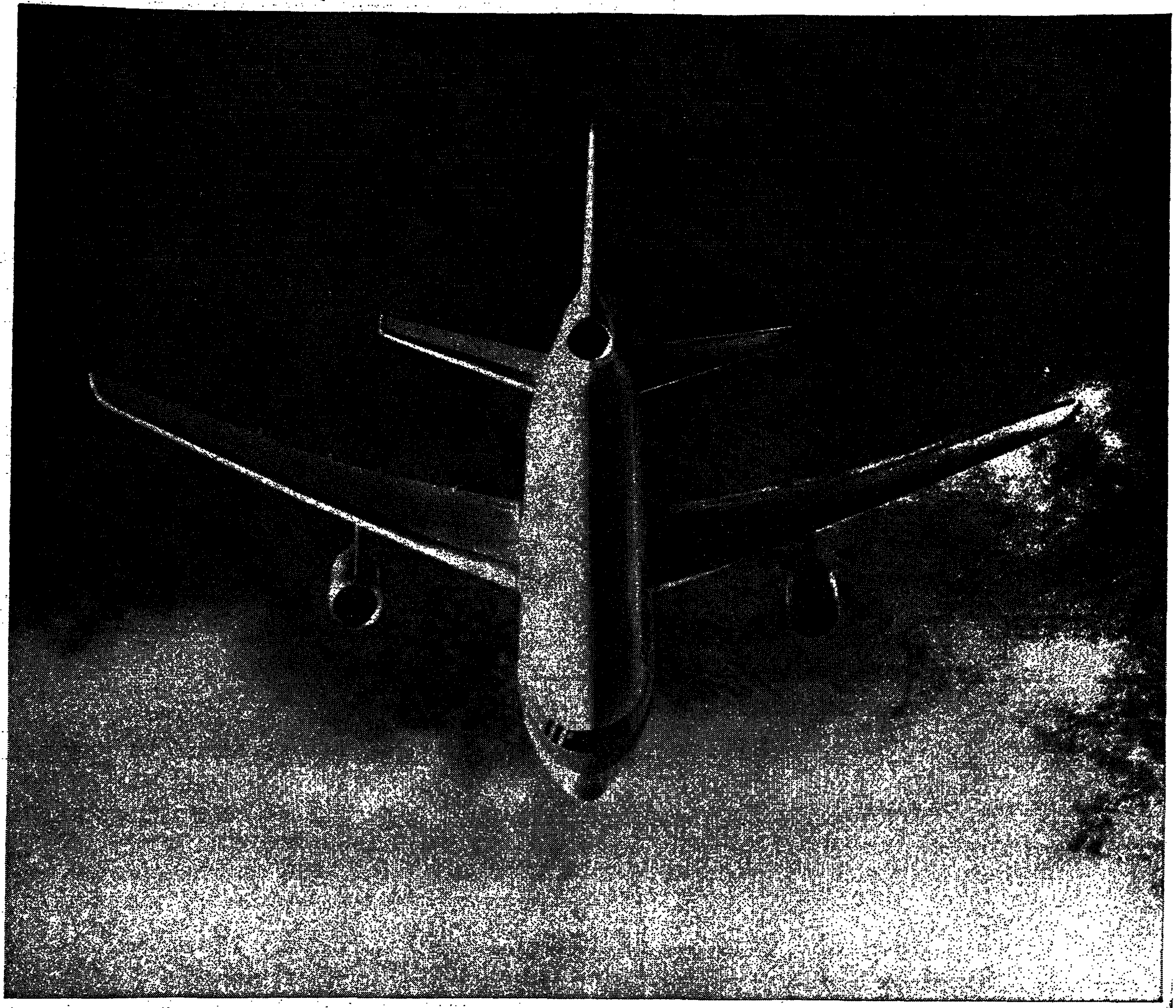
Finally, there is the ground defence of the RAF's airfields and other installations, at home and overseas, which is entrusted to four squadrons of the RAF Regiment in the UK and one in Germany, and three squadrons of the Royal Auxiliary Air Force.



The Air Defence Variant (ADV) of the Tornado multi-role combat aircraft (called F-2 by the RAF).

AIR DEFENCE OF THE UK

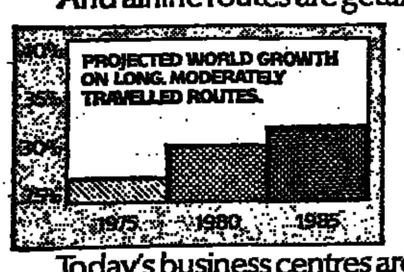




By 1985, this plane will be the most profitable for 32% of the sky.

The future of air travel.

The world is getting smaller.
And airline routes are getting longer.



Long, narrow routes (greater than 3,000 miles, carrying moderate passenger loads) totalled about 25% of air route mileage in 1975. By 1985, that number will be approximately 32%

It makes sense.

Today's business centres are not limited to North America and Europe. Across the globe, our changing world is creating greater demands for big jetliners that can fly non-stop over long, moderately travelled routes. Among the wide body jetliners in the air, only one can meet this demand for greater airline profitability.

L-1011-500: for profitability and more.

The Lockheed L-1011-500 TriStar handles long, narrow routes at a greater airline profit.

In fact, one of the world's foremost airlines determined that the L-1011 operates at plane mile costs from 8 to 10% less than its nearest competitor—and far less than other competition. Lower costs because the L-1011, though a wide body aircraft, is a shorter, lighter jetliner and also because of special fuel-saving measures and advanced technology.

L-1011: today's jetliner with tomorrow's technology.

The L-1011-500 has many of the latest technological advances.

Because of its unique design, the L-1011 has an extraordinary ability to adapt the recent technological advances into its existing airframe. Hence, this is one jetliner which can add new technologies (and new efficiencies) when they become available.

For instance, the L-1011's wing span has been lengthened by nine feet because of the development of an exclusive system of computer-driven Active Controls. The added wing span reduces drag, cutting the amount of fuel consumed in flight.

The L-1011 also has the most advanced Flight Management System. This exclusive system automatically selects the best speed and power levels, controlling the throttles in flight for the minimum use of fuel.

Also, the L-1011-500 is uniquely equipped to land at some airports in weather bad enough to turn other big jetliners away.

The L-1011 offers something for passengers, too: supreme wide-cabin comfort.

The competitive advantage of the L-1011-500.

Why is the L-1011-500 TriStar the right-size plane at the right time? Because the airline world is changing. More long routes are being developed. Passengers are looking for non-stop, comfortable flights to destinations around the world.

The L-1011-500 offers an airline the greatest flexibility in coping with these changes and the needs they create because it provides an unmatched combination of low plane mile and seat mile costs.

Superior comfort for passengers. Superior profits for airlines. That's the L-1011-500. Take another look at the L-1011-500 TriStar. Because 32% is a lot of sky.

Lockheed L-1011 TriStar

UK NEWS—LABOUR

Building workers may accept offer

BY JOHN LLOYD, LABOUR CORRESPONDENT

THE MAJOR trade union in the building industry is likely to accept a revised pay offer—but only if it is shorn of extra penalty clauses.

The executive of the Union of Construction, Allied Trades and Technicians, which organises about 200,000 workers in the private building sector, yesterday accepted that the revised offer—which has been assessed at varying levels of increase—could form the basis of a settlement.

The union believes the offer to be worth an average of 8.5 per cent a year. Other unions have assessed it as 6.2 per cent. Employers reckon it is worth considerably more.

However, the UCATT executive decided not to agree the offer while the present range of penalty clauses, designed to tighten up on labour discipline on building sites, remained in the draft offer—described by the National Federation of Building Trades employers as "final."

Mr. Albert Williams, the union's assistant general secretary, said yesterday that "the penalty clauses are just not on. They've been extended to the point where they cut in to our members' rights."

UCATT has called a consultative delegate conference for Tuesday. The union's executive will decide on the offer on Wednesday, before a meeting of the joint trade union sides and a subsequent meeting of the Building and Civil Engineering Joint Board.

The Transport and General Workers Union, the other major union in the industry, has rejected the offer.

Left issues plan to gain union influence

BY JOHN LLOYD, LABOUR CORRESPONDENT

A BLUEPRINT for extending the influence of the Left within trade unions has been published by the Labour Co-ordinating Committee (LCC), a group closely identified with the policies of Mr. Tony Benn.

An LCC pamphlet, Trade Unions and Socialism, by Mr. Peter Rowlands, secretary of Hounslow Trades Council, argues for:

● The winning, or regaining of "control for the Left in the major affiliated unions now in Right-wing hands, particularly the Amalgamated Union of Engineering Workers and the Electrical and Plumbing Trades Union."

● The popularisation among union rank and file of the Alternative Economic Strategy which, the pamphlet says, is already the policy of the Labour Party and substantially that of the TUC and many unions.

● The merging of constituency Labour parties and trades councils to become "active campaigning bodies" in the long-term and more co-operation between the two in the short-term.

● The encouragement of workplace Labour Party branches, already proposed by the party's national executive committee.

● Promoting "broad Lefts" in unions where they at present do not exist. "These should be of the broadest, most open sort and should strive for unity while at the same time maintaining discussion of different views."

The pamphlet says that the unions' block vote, which dominates Labour Party conferences, is "one of the thorniest issues now being looked at."

However, it concludes that it "is not in principle undemocratic," and argues that the appropriate response would be to democratise the unions rather than abolish the block vote.

On inner-union democracy, the LCC claims that "most union constitutions are not democratic enough—they give too much power to general secretaries elected for life and officials appointed for life."

On the key debate between incomes policy and free collectiv bargaining, it says that an incomes policy could be supported only if it were part of an agreement which included the control of profits, prices and dividends, full implementation of the Alternative Economic Strategy and a large-scale redistribution of wealth.

It says: "The preservation of the framework and process of free collective bargaining is vital under any political circumstances.

"The unification of free collective bargaining entailed in such an agreement would strengthen and give a political dimension to trade union struggle which is necessary if the frontiers of capitalism are to be successfully rolled back."

Pauline Clark reports on the eve of the UN shipping talks

Seamen fight flags of convenience

THE National Union of Seamen, Britain's biggest seafaring union, is poised to join foreign unions in a major battle against the "shameful" use of flags of convenience, Mr. Jim Slater, the general secretary, said yesterday.

The union which took industrial action last autumn to prevent the Cunard Caribbean cruise-liner, Cunard Countess, from taking up a flag of convenience, also gave notice to other British shipowners seeking foreign registration that their ships would be boycotted.

Mr. Slater delivered his warning on the eve of today's special discussion on the flags of convenience issue at the United Nations Conference on Trade and Development in Geneva.

The union fears that a decision in favour of maintaining the present system has virtually been taken already without proper consultation with seafaring unions.

It also attacked the British Government for not including union representatives in the British delegation— a situation the union will counter over the next 10 days by intensive lobbying of Government and shipping delegates.

Introducing the union's own special reporton flags of convenience and what it describes as "the unacceptable face of shipping," Mr. Slater said the problem now faced by seafarers was the result of shipowners having "abandoned principle for profit" and their success in taking governments with them.

Mr. Slater made a particular attack on a working paper produced by the EEC Commission for discussion in Geneva which concludes that "open register shipping appears, on balance, to be beneficial to the Community's economy and should therefore not be 'phased out' as such." The paper nevertheless suggested that there may be scope for international agreement to deal with abuses of the system.

Mr. Slater argued: "Even the EEC Commission has been sold on this line but they offer no evidence of the supposed advantages and totally ignore the detrimental economic and social effects of flags of convenience."

Flags of convenience, he said, hold a dominant position in the world's shipping today but they also dominate shipping casualties, exploitation of crews and racism.

Describing the system as "a menace" which the NUS with the International Transport Workers Federation and other representatives of world seafarers insist must be stopped, Mr. Slater said the issues at stake were not just pollution and safety.

The system was about untaxed profits, about avoiding any real contribution to the economy of the country of true ownership and about "paying third world seamen $50 a month and keeping them on ships for two years at a time without leave."

"Flags of convenience represent 19th-century laisser-faire capitalism at its very worst—they are the unacceptable face of shipping."

The report argues that if there were less dependence on chartered shipping in Britain and more UK-owned shipping operating under the UK flag, the country's balance of payments would be improved and more jobs would be created.

Car strike ends

ESCORT CAR production at the £125m Ford factory at Halewood on Merseyside was resumed yesterday after the crippling 15-day unofficial strike.

The company said there had been a godo response from the 5,000 men on the day shift and only normal absenteeism.

Work hours cut 'no help for jobless says CBI

By James McDonald

REDUCING the working time of Britain's labour-force would not shorten the dole queues, Sir Terence Beckett, director-general of the Confederation of British Industry, said in London yesterday.

"It might seem an attractive way of solving the unemployment problem. But in the long term, it will put up costs in British industry—which is struggling desperately to recover its competitive edge—and lead to even greater unemployment," he warned.

Sir Terence was introducing a new CBI publication being launched at a conference in London today at which about 120 company chief executives and personnel directors will discuss the issue of working time.

The publication entitled "Working time—Guidelines for Managers"* says that pressures to reduce working time and for work sharing have re-emerged at a time when the performance of the UK economy and the competitiveness of many companies and industries have been deteriorating.

"Yet Britain has been in the vanguard internationally of shortening the working week, a role for which she is particularly ill-suited in view of the effect on costs and the difficulty of offsetting that effect."

To depict working time cuts as the solution to unemployment "is dangerous and misleading," the pamphlet declares. "For many of those on whose behalf such claims are pressed, the consequences will not be a solution, but a threat to capacity, competitiveness and therefore to jobs."

The booklet also sets out guidelines for employer organisations and companies, including those committed to change, those facing demands for change and those who wish to examine the options.

It suggests that, if patterns of working time are to be changed, it is important that the change is introduced gradually, with an eye to long-term and not immediate pressures.

Steps should also be taken to ensure that change does not create its own industrial relations difficulties.

"Around the world, the 40-hour week is still the basic standard for manual and staff employees. Apart from Belgium—where there have been moves towards a 38-hour week—no significant departures have been made."

"Working Time — Guidelines for Managers". CBI Publication Sales, Centre Point, 103 New Oxford Street, London, WC1. £2.

Editorial comment, Page 14

Nursing hit by staff shortages

By Our Labour Staff

THE NURSING profession is suffering a "severe shortage" of trained staff in specialist areas, and especially in geriatric nursing, the Royal College of Nursing said yesterday.

Evidence of the problem's extent in an RCN survey, Manpower Availability, published yesterday is likely to be used forcibly by the union to support its claim for a large increase in nurses' pay, which it says will combat a decline in recruitment and consequent lowering of standards.

At the RCN annual conference last week leaders gave a tough warning to the Government that its members might be forced to reverse their policy of not taking industrial action over wages.

The RCN is one of the biggest unions, and represents some 460,000 nurses and midwives, which have so far failed to persuade Health Service employers to raise a 6 per cent pay offer tied to Government cash limits for pay in the sector this year.

The survey showed that of six specialities studied by the RCN working party the worst manpower picture was found in mental illness, geriatrics and operating.

There should be grave concern, it states, that in the geriatric speciality 88 per cent of the respondents reported a deficiecy of trained nursing staff, while nearly 50 per cent had a surplus of nursing auxiliaries.

A similar trend of lack of trained staff and over-reliance on nursing auxiliaries was found in mental handicap and mental illness.

Grant to study ethnic jobless

A £126,000 grant to Keele University, Staffs, to study unemployment among young people in minority ethnic groups, was announced yesterday by the Department of Education and Science.

The three-year project will be led by the head of Keele Universities education department, Prof. John Eggleston.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

BUSINESS PROBLEMS

BY OUR LEGAL STAFF

Cheque safety

If a cheque goes astray in the post and it falls into the hands of an unauthorised person who fraudulently endorses the cheque and pays it into his own account, has the payee of the lost cheque a good claim against the drawer? In other words, is the drawer still liable to pay the sum due on the cheque to the payee without undue delay?

If a cheque is not received by a creditor his claim to payment is not extinguished or diminished. The drawer or the bank on which the cheque is drawn will have to bear any loss. On the question of how to make cheques "safe" (Business Problems, March 25) it has been pointed out to us that the definitive way to do this is to write the word "only" after the payee's name, strike out the printed words "or order" and initial the same. This procedure, with the addition of a "not negotiable" crossing, provides the absolute security required though the banks do not publicise the practice as it imposes stringent legal "super-added obligations" upon them.

Allowable losses

There is some doubt in my mind whether or not an allowable loss for capital gains tax purposes is established if Traded Options are abandoned and not sold. Could you please explain the position?

London traded option contracts (of the April 1980 series or later) do indeed produce allowable losses upon expiry. There is no necessity to sell expiring contracts in order to secure CGT losses. This is one of the effects of section 84 of the Finance Act 1980.

However, although section 84(3) embraces Australian and Canadian (Toronto) traded options, it appears to exclude European (Amsterdam) and U.S. (Chicago) traded option contracts.

Assessment of rates

New industrial premises were constructed in two phases—the factory being built and occupied in September, and the offices not being ready were occupied the following February. The rating assessment was made on the whole property in March although the valuer was agreeable to advise the rating authority if required the assessment relating to the factory portion for computing the rating during the period September to February. The council committee insists that rates are paid on the whole property from September despite the fact that for part of this time the offices were in course of building and not ready for occupation. If this is not correct what action can be taken to obtain repayment of the excess rates please?

If the council wish to treat the premises as a single entity then it seems that completion will only occur when the offices are finished. Otherwise there may be two completion dates, with rates payable from the date of completion of each part. Alternatively, void relief for the empty part could be sought.

Self-employed pensions

I am now self-employed but had been in a company pension scheme until two years ago, when I was told that I could transfer my pension rights to a new employer's pension scheme. Can I set up my own pension scheme and, if so, can I take advantage of a transfer from my former employer?

If you are running your own business then it will probably pay you to turn this business into a limited company (cost about £100) unless you are in one of those professions (e.g. law, accountancy) where professional rules prevent you operating as a company.

As a company you can set up your own self-administered (or for that matter insured) pension scheme even if you are the only person eligible to join. You can then negotiate a transfer payment from your previous employer's scheme. Within Inland Revenue guidelines part of this capital can be used in your own business.

If you do not turn yourself into a company you can still pay self-employed contributions for the next 15 years, or until you retire if later. This is payable in addition to the paid-up pension from your earlier job. Under present legislation an approved pension scheme is not permitted to pay a transfer value into a self-employed arrangement but only to another approved pension scheme.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

Back to the hard sell in Oxford Street

David Churchill reports on how Selfridges has had to adapt to the hard times in UK retailing

Roy Stephens: needed to attract the home crowd after the tourists had gone

THE wedding of Prince Charles and Lady Diana Spencer will be like Christmas in July for London's retailers as tourists from all over the world flock to the capital.

Yet at least one major retailer will view the influx of free-spending tourists with some trepidation. Selfridges, the flagship department store of Oxford Street, with annual sales this year of almost £100m, is still trying to recover from the aftermath of London's last tourist boom.

In the mid-1970s Selfridges' sales staff hardly had to move from their cash registers as Japanese, German, and Middle Eastern tourists bought virtually everything in sight. They have vivid memories of some customers, such as wealthy Arabs, buying a dozen bottles of expensive perfume, an armful of wrist-watches, or several mink coats at a time.

Selfridges had "never had it so good." At least that was the immediate impression for other retailers who were perhaps somewhat envious of the store's ability to attract the high-spending customers.

But when the tourist wave dried up two summers ago (the strong pound and rocketing cost of hotels and restaurants made London too expensive), it left Selfridges an unfortunate legacy. Having had it so easy during the boom years Selfridges was too out of condition to cope with the falling level of trade.

"Our staff had forgotten how to sell," comments Roy Stephens, Selfridges' managing director. "The store was all right at the time of the boom, but afterwards it faced numerous problems." Such problems included a lack of productivity, excessive operating expenses, a bureaucratic management structure, and an urgent need for store refurbishment.

Selfridges' British customers, meanwhile, had been getting a raw deal during the boom years since the store had pushed to the background such staple items of the department store trade as furniture, carpets and curtains—in which the tourists usually had little interest.

Though now grappling with these difficulties, Roy Stephens was not with Selfridges when they developed. At that time he was running Alders department store in Croydon and was busily persuading people—with some success—that Oxford Street department stores were no fun to shop in and offered nothing that could not be bought in Croydon or any one of dozens of provincial shopping centres. Stephens says that most provincial stores at this time realised that they had to take advantage of the position as much as possible "because we could all see the bubble had to burst some time."

When it did burst in 1978-79 free-spending tourists were replaced by the jeans-clad, budget-conscious visitors who looked but did not buy.

Selfridges felt the pinch, only to have its problems intensified when, in June 1979, the first Conservative budget put up VAT to 15 per cent. This started a retail slide that has continued virtually unabated ever since.

Rejuvenate

Stephens, who left Alders in 1978 to try his hand at running his own business, was attracted by the challenge of rejuvenating Selfridges when head hunted for the job in the summer of 1979. He found it hard to resist, since, like most retailers, Oxford Street has always been the "Mecca" of retailing and is probably the most famous shopping street in the world.

Stephens was well aware of his task. "I had to get us back to meeting the 'bread and butter' needs of our main customers," he says, while at the same time bringing Selfridges up to date and making it "an exciting store to shop in again." Only in this way could he reverse the trend he had promulgated when at Alders.

Selfridges has a long history of being an "exciting store." It was opened in 1909 by an American, Harry Gordon Selfridge, who had already built up the Marshall Field department store in Chicago.

The store's location at the Marble Arch end of Oxford Street was at that time away from the main shopping area—so he started the Selfridges' tradition of special events to bring in the customers. After Bleriot had flown the Channel, for example, Selfridge arranged for the aeroplane used to be exhibited in the store. Selfridge exhibited in the store.

After Selfridge's death in 1947, the store was eventually bought up by the Lewis's provincial department store group (no connection with the John Lewis Partnership) and then, in 1965, by the late Sir Charles Clore's Sears Holdings.

When Roy Stephens took over in August, 1979, he set the store a double-edged strategy—store productivity had to be increased and operating expenses drastically reduced.

Recognising that "we'd lost the art of selling," Selfridges invested in a comprehensive training programme of sales techniques, using its own video equipment to record sales sessions. It plans to put all its sales staff through this course and is about a third of the way through at present.

An increase in productivity has also been achieved in other ways—reducing staff numbers and enlarging selling space, thereby putting more pressure on staff to sell more. Selfridges now employs the equivalent of 2,250 full-time staff (taking into account part-time workers) which is a drop of about 13 per cent on a year ago. Staff cuts (mainly through natural wastage) came equally from both sales and administrative staff. In return for higher productivity, Selfridges has restructured its pay and benefits package of staff remuneration.

Stephens has initiated a major drive to reclaim from non-sales areas selling space that, in such a large store, had all too easily been "lost" over the years. As a result the selling space over the six floors has been increased over the past two years by more than 10 per cent, to over 41,000 sq metres.

The productivity drive has gone hand in hand with an attack on operating expenses which had not been adequately controlled during the tourist-inspired boom years. Stephens' philosophy "is to worry about the small details which cannot help but make the business sharper and sharper."

A key area in controlling expenses lay in stock control. "We had to get back to the basics of efficient retailing," Stephens recalls. Such "basics" included reviewing the product range and weeding out slow-moving stocks, paying more attention to phased deliveries from manufacturers, and reducing stocks in hand. Selfridges turned over its stock 5.5 times last year, an increase of 6.5 per cent over the previous year.

Selfridges also launched a major drive on "shrinkage"—the retail trade's euphemism for theft by both staff and customers. Over the past year, this has fallen by some 40 per cent to just under 1 per cent of turnover—one of the lowest levels among all types of retailers.

The reduction in staff numbers and increased productivity also led to total payroll costs rising by only 2.13 percentage points over the past year, in spite of what Selfridge describes as a "substantial" pay rise to staff.

Total operating expenses over the past year, therefore, increased by only 2.89 percentage points. Such a small increase was essential for Selfridges, given the pressure on profit margins—which fell by 0.5 percentage points—and static sales growth as the recession began to bite.

A management information system helps keep central control of operating expenses: details of the previous day's trading performance are circulated every morning throughout the key departments of the store.

Every month, there is a formal meeting of all department heads responsible for expenditure to assess the control of operating expenses. Also, once a month, there is a meeting of all group merchandise managers to assess the product mix and sales performance. In addition, all capital expenditure has to be authorised by a monthly expenditure meeting of senior management.

Pruned

Selfridge's management structure has been streamlined since Stephens took over. The board consists of six directors—managing, finance, personnel, two merchandising, and services—whereas the old structure was virtually twice the size. Stephens has also pruned the management structure all the way down to the shop floor.

The board meets informally every Friday to discuss the store's position, and formally once a month with Sears' chairman and his chief executive. "We have virtual autonomy from Sears in running this store," says Stephens.

Stephens is well aware that Selfridges has its critics, and believes that the store's ambience has to be improved to make it a pleasant environment in which to shop. He points out that during the boom years, much refurbishing work was left undone either because the will to do it was not there because sales were soaring anyway, or because it was impossible to do the work in the crowded store. "But it's like painting the Forth Bridge," says Stephens. "You can never afford to stop refurbishing a department store."

Hence Selfridges is in the midst of a major refurbishing programme, including making the store cleaner and brighter and building modern toilet facilities. The store's display staff is split into teams responsible for a floor each, to encourage them to compete in providing the best displays. Previously, the display staff worked throughout the store.

Selfridges has adopted a more aggressive style in its advertising. Having gone heavily into television advertising a few years ago, it is now promoting itself in the press. Its total advertising and promotional budget is more than £2m a year, of which about £½m will be spent in the media.

Stephens has also initiated a major market research programme to identify the store's customer profile at different times—ranging from office workers to tourists and families—so as to gear the store to meet its customers' differing needs at different times.

Putting the magic back into Selfridges also means mounting special exhibitions, in the tradition first started by the Bleriot exhibition.

Selfridges has just enlisted the aid of seven 2,000-year-old soldiers for its current East meets West exhibition. The seven are part of the 6,000 life-size terracotta soldiers discovered in China a few years ago near the tomb of the Emperor Qin shi hund di. An estimated 140,000 visitors saw the display—the first time it has appeared in the UK—before it closed last Saturday.

TECHNOLOGY

EDITED BY ARTHUR BENNETT AND ALAN CANE

Misunderstanding word processors

BY ALAN CANE

"WE HAD a choice of employing an extra member of staff for the job, or getting a machine. It has already paid for itself in four months, and we have much greater efficiency."

"What I anticipated to happen, happened. They said it would cut my work load by half—what I suspected has proved correct and it has doubled."

The first quote was from a manager, the second from a secretary. The machine both were discussing was the word processor, perhaps the least understood office machine around.

Suppliers

That is official — National Opinion Polls says so. The verdict is based on a survey it carried out earlier this year and commissioned by AES one of the leading suppliers of word processing systems.

The NOP survey says: "Word processing as a general concept was not well understood. A few decision makers in the course of their investigation of the market prior to purchase had bothered to find a general definition. Such a basic definition of word processing was not forthcoming from many decision makers who had already made their purchase.

They were equally vague about "electronic mail," another piece of jargon from the "office of the future" specialists.

The survey notes: "There was a very low level of awareness of the concept of electronic mail among all respondents. Guesses as to the meaning of "electronic mail were wrong more often than they were right; some respondents were unable to put forward even a guess."

AES Data (UK) is the British subsidiary of AES Data of Montreal, a company established in 1974 and now one of the world's leaders in screen-based word processors.

It is re-establishing its individuality after a few years of running uncomfortably in tandem with Wordplex, another word processing supplier.

Mr. Derek Groves, director of marketing for the UK subsidiary, says the survey has indicated two distinct markets for his products.

First there are the experienced users, probably with a computer background; AES and other top companies have been selling successfully to these users for years.

SO, WHAT is a word processor? There is little agreement even among the experts on an exact definition, but it is, basically, a computer which processes words rather than data. Text can be created on a visual display screen, edited, stored in the computer's memory and retrieved and printed out at will. The quality of a word processor depends on the quality of its screen and keyboard and the flexibility of its word processing software, the computer instructions which enable it to manipulate text.

Then there is that group of users who know little of word processing and show little enthusiasm to learn.

Mr. Groves says: "We have learned that we have to make things much simpler; and work harder on education. We are establishing a training centre to help our users."

The NOP survey showed that most buyers of word processing equipment were looking for cost savings, but other benefits mentioned included speed of turnaround and the quality of the final product.

One respondent said: "It is the written word the client buys. I know it should be the content, but, if he sees it done beautifully, typed and adjusted, it cannot be touched."

Other advantages were extension of the sorts of work which can be carried out—and flexibility.

Few disadvantages were noted. Traditionally, most resistance to word processors is expected from operators who are thought to believe the machines depersonalise their work. But once the machine is installed, resistance seems to evaporate.

There is of course the common disadvantage of new (or any) technology. One correspondent said: "We were hamstrung because when the girl who could use the machine was not there, it closed down."

The survey found customers critical of salesmen who talked jargon and emphasised technicalities: "They try to sell you the conception of the machine rather than coming and finding out what you want and suiting your needs to what they have."

All this is reminiscent of the early days of selling computers. It illustrates just how far manufacturers have to go before real progress is made in selling the electronic office of the future.

The word processor, replacement for the million or so typewriters in the UK, is the first step in that development. Electronic mail will be one of the last.

Jargon

Yet, the technology for virtually everything promised in the electronic office already exists—at a price—and manufacturers are pushing ahead into even denser technology and denser jargon.

The chief lesson of the NOP survey is that they must keep it simple. AES is on 01-637 5065.

RAY GLOVER (rear right), managing director of AES Data (UK), Derek Groves, marketing director, and (foreground) Tony Blythe, sales manager, with their word processor in the company's London offices.

Custom chemical guide

A GUIDE to companies offering custom chemical manufacturing services in the UK has just been published by Industrial Aids (01-828 5036).

The guide costs £85 and gives details of 47 companies or manufacturing sites in the UK providing custom chemical synthesis services on behalf of outside organisations.

Details are also given of each company's affiliations and the access it might have to group research and development resources, the type of equipment it has, and the packaging and storage facilities available.

..POINTERS..

Trained staff shortage

ACCORDING to the Director of the National Computing Centre David Fairbairn, when the country comes out of the present recession "the shortage of trained computer staff could be about the 40,000 mark."

He recalls the financial squeezes of 10 years ago at the time of the last recession in which cut-backs resulted in a halt being called to training of data processing people.

Fairbairn says: "As soon as we came out of that recession the serious shortages became apparent and it was still being reported by a survey conducted for NEDO in 1979. That is to say, in eight years we had still failed to catch up with the shortage."

In spite of the greater availability of grants from the Government this time, Fairbairn asserts that if employers do not recognise the situation and get new training programmes under way "the consequences could be disastrous for the computer industry."

Water treatment

A NEW range of water treatment units introduced by Fram Industrial of Llantrisant, South Wales, is claimed to cut the cost of effluent disposal and enable pollutants to be recovered for reprocessing or disposal in concentrated form.

The units are being marketed under the trade name Framclean and are intended for use in factories and transport depots.

Prices are from about £1,100 for a basic one gallon per minute unit employing gravity flow to about £6,500 for a fully automatic 25 gallons per minute unit with pumped inlet and outlet.

Fram says all units are capable of treating polluted effluents to the levels needed to gain Water Board Consent to Discharge.

Directory

MATERIALS and machinery and the moulding and fabricating capacity available in the UK are covered in a new directory for the plastics industry.

It has been launched by Maclaren Publishers in association with the British Plastics Federation and has references to more than 2,200 suppliers of products and trade services.

Price of the 304-page directory is £20 (members of the British Plastics Federation £14) and is obtainable from Maclaren Publishers, PO Box 109, Davis House, 66-77, High Street, Croydon CR9 1QH (01-688 7788).

Sealing

CLEAR sealing materials which can be applied to porous surfaces such as concrete and brick to prevent permanent marking by vandal's felt pens and aerosol paints are being produced by Quentsplass of Wetherby, West Yorkshire.

The coatings provide a surface which enables solvent-based emulsifiable cleaners to be used to clean off offending words and drawings.

If the surfaces have already been marked it is possible to obscure these by applying a colour coat before the clear sealer.

Terminals

IN PRODUCTION at Newbury Laboratories, Berkshire (0635 48864) is a new range of microprocessor-based display terminals with detachable keyboards.

Called the 8000 series, the units, which measure only 15 x 14 x 17 ins offer V24 or current loop connections, a 12 in green phosphor screen with bonded non-reflective face plates, low profile keyboards and a three position tilt facility.

Also standard in these VDUs is a "power-down" facility which enables operator-entered screen options (formats, protected fields on the screen and validity checks) to be held in storage (CMOS RAM) even when the terimnal is switched off for several months. Prices start at £559.

Tray system

DIOTRAY, a new tray system from Metal Bax's paper factory at Swindon, has been launched by the company as an extension to the Diotite cartonning system. Metal Box claims that the development means that flat blanks, usually made from ovenable coated board and coated with other thermoplastics, can be erected with outfolded horizontal flanges which are ideal for lid sealing.

Metal Box says that the advantages over conventional systems is their liability to remove the lid completely so that the tray can be used either to bake mix-based or frozen products or to reheat and serve foods.

ROY LENCH, Telecommunications Manager for Chevron Oil Europe with the London-based ATS KM700 telex message distribution system.

LATEST COMPANY to take advantage of modern electronics to rationalise and speed up its company-wide telex message system is Chevron Oil which has installed a networking system developed by ATS Communications at its European headquarters in Victoria Street and at its marketing HQ in Croydon.

For message preparation conventional telex machines have been replaced by six ATS Vitel units which allow the messages to be compiled and edited on a VDU screen.

LOMBARD

Waiting for the innovator

BY JOHN ELLIOTT

THE PAUCITY of constructive and original thinking about Britain's industrial policy has been underlined this week by a book called, somewhat implausibly, "Industrial policy and innovation." It contains a dozen or so papers and comments delivered at a private conference in London last December.

Despite its title, it is most noteworthy for its lack of innovative thought. One distinguished leading participant has privately described the summing up of the conference by Sir Charles Carter, former vice-chancellor of Lancaster University, as "world weary." The only man credited by the participant with much useful to say was 81-year-old Professor G. C. Allen who drew on Japanese experience to stress the perennial problems of Britain's trade unions and managers.

Depressing

Yet the conference—and the book—brought together some of the most distinguished luminaries in the world of economic and industrial policy. While the overall impression created is profoundly depressing, one must also add that some of the papers are significant contributions to the debate.

In particular those who (illogically) conclude that the past failures of Government intervention prove that the market system is perfect, and intervention inherently bad, will lunch out for months on the contents of one paper. This chronicles the failures of attempts to sort out Britain's machine tool industry at a cost of £100m from 1965 to 1978, and especially to aid the development of numerically controlled machines.

Hardly anyone at the conference denied that some sort of industrial policy is needed, nor that the Government should encourage research and development. They accepted that the overwhelming public or social good that accrued from such research across a wide area outweighed the limited private gain of any one company and so justified public expenditure. But they failed to move far beyond this point, often falling back on the need for better engineers, managers and entrepreneurs.

Sir Charles Carter, who felt it had all been said 25 years ago, ends the book with the despairing cry: "A large number of entrepreneurs of extraordinary skill and daring seem to be needed to turn the course of events." Even Sir Keith Joseph no longer relies solely on such a miracle when seeking Britain's industrial future! The long-running Finniston debate has dramatically shown what little hope there is for rapid change on the educational and professional engineering scene.

Launching the book at the National Institute of Economic and Social Research last week Sir Arthur Knight, former National Enterprise Board chairman, put his finger on the core of Britain's problems in a far more constructive way.

He said that what Britain had to realise was that it was no longer competing just against the industrial might of individual foreign companies, but against the "conscious industrial policies" of countries like Japan, the U.S. and France. This, he emphasised, was the great difference between Britain's present industrial problems and those at the turn of the century—a distinction some people at the conference had failed to recognise.

But even Sir Arthur, who wants Britain to have a "conscious" policy, then shied away from the notion of committees and civil servants being involved in a "picking winners" exercise. His view really may not be all that different from Sir Charles' because he wants to rely on better managers and entrepreneurs to do the picking and developing.

Not enough

The problem of relying on such individual effort is that it will not match up to the "conscious" (i.e., national) approaches of more successful industrial countries. What Britain needs—and what this book fails to provide—is a way of using national organisations and institutions, including the Government, to stimulate and guide individual endeavour. Waiting for the entrepreneur and innovator is not enough.

Joint Studies in Public Policy: Industrial Policy and Innovation. Edited by Charles Carter. Heinemann. Hardback £14.50; paperback £6.50.

Chelsea: miserable season's bright patch

GARDENS TODAY

BY ROBIN LANE FOX

GARDENERS have had a horrible season so far. It has snowed, blown and rained as I never remember in any spring and whenever I go near the garden the weather promptly ruins my efforts. Perhaps that is why more visitors seemed to have crammed into the main tent at Chelsea's Flower Show last week than ever before. The outdoor exhibits were washed out for half of the time. The indoor ones were crowded with hopeful escapists, reminding them that gardens could indeed look beautiful. Almost every exhibitor deserved a prize for having anything worth showing at all.

Wasteland

Large public exhibits at Chelsea are rather more fashionable than a decade or so ago. This year, their variations were striking. I could not see why South Africa won a Gold Medal for its large and bleak expanse of Bird of Paradise flowers and dried seed heads on pieces of dead tree. Whatever else, their country has a magnificent wild flora. Next year it might like to send us living evidence of these many unknown windfalls for gardeners of the future.

This year it opted for wasteland with a few sprays of orchids and even if this caught the national image rather aptly, it hardly did the country's flowers justice. Like several others, it underlined the wide gap between most British exhibitors' sense of style, and the approach of their foreign competitors.

Birmingham and Belgium pointed the contrast very clearly. Their exhibits stood near to each other and were composed, I need hardly say, from plants grown to the highest standard. Belgium, it seems, is still stuck with the old groups of rose-carmine azaleas and stiff hydrangeas which have long been the curse of international floralies.

Birmingham City had continued with Wilmot Breeden for a joint exhibit which refuted all those complaints about municipal gardening. Three distinct colour groups were massed round a central informal vista. A red and orange and a yellow planting framed the approach to a sweep of whites, creams and white variegation. I would have omitted the reds myself, but there was evidence of a masterly eye behind the rest of it.

The fiery orange lily, Enchantment, often takes a bow in this column, but I would never have thought of pairing it with the small red-orange Zinnia Peter Pan which Birmingham proved to be an ideal companion. These strong orange colours were linked to the gold-yellow variegations of beautifully grown foliage plants from the greenhouse, especially some glorious yellow forms of cordiseum.

At the other end, the colours were limited to whites and creams and proved once again what a happy match they make with the greens of a garden's leaves. White foxgloves joined white poinsettias from the greenhouse and groups of the new tobacco plant called Nicki's White. The cream variegation on the leaves of the big greenhouse exotics set off the whites in the flowers and made this the outstanding design in this year's tent.

If you want yellow and orange in the garden, try to group and segregate them to see their impact at its best. If you are thinking of yet another white border, remember white-striped leaves which Birmingham combined so well.

The most enviable feat of gardening for my money was pulled off this year by the public exhibitors from Slough. All owners of warm greenhouses have entertained hopes of the butterfly orchids, or schizanthus from an annual seed packet. Few of us have ever grown anything better than a few thin plants in a five-inch pot, whose heads of flower are narrow and palely coloured.

In Slough, the schizanthus still lives up to the seedsmen's pictures of it. Broad headed bushes of its flower were massed across the stand in the full range of colours from lilac to rose pink. When the plants spread out and hold flowers in a level mound they deserve their popular name, the annual orchid.

Feeding is important from an early age, as is a level temperature around 45 degrees F day and night. Yet even when I stopped my young plants, dosed them with weekly phostrogen and kept them evenly heated, no more than two or three would have qualified for Slough's schizanthus mountain. The pansy-flowered strain showed especially well, in a family which is far trickier than its seed packet suggests.

Floral patterns of the Prince of Wales Feathers had been traced for the occasion in two small creepers, Nertera and Helxine, the so-called Corsican Curse. Their London growers deserved a prize for skill, if not for beauty. Down among the roses however the Royal wedding had not thrown up an obvious bride for future gardeners. Instead, I am on the watch for a good lemon-yellow variety of full shape which will hold up in wet weather. Here, I liked the look of Gregory's recent variety, Fleur Cowles. The flowers are a full and a pale yellow, which would mix well with the blues and silver leaves of a civilised summer border.

Among the border plants for connoisseurs I was not impressed with the new variegated form of perennial forget-me-not, Brunnera hadspen's cream. My standard variety is a better blend of cream-white and green. Recently the dead nettle family have come on fast but the latest arrival, Lamium orvala, is not an immediate choice for new borders. Its leaves are bigger than those on the lovely Silver Bracon while the flowers are a mauve-pink which would not appeal to me. However I fancied a double red and yellow aquilegia, which Bressingham Nurseries were selling as Nora Barlow, although the family is usually prized for its simple single flowers.

I could also give room to a narrow leaved form of pampas grass which showed a central gold line down its thin and arching branches. Exhibited by Bess Chatto of Colchester, it was named Cortaderia seselloana quiro-lineata and is no doubt in short supply. But it looked to be a grass which deserves a popular name and a future in black polythene pots for visitors to garden centres.

I have only mentioned the new or the unusually exciting and even then I have scarcely picked a bunch from the riches of our finest Chelsea Show. Notcutt's many climbers, Ingwersen's superb alpine table, the violettas and the yearly shows of clematis and thick delphiniums must wait for another occasion. The latest in lawnmowers is called The Ripper, while an old fashioned wood frame greenhouse on a brick built base now begins at £800. The classic rockeries are no longer built. The outdoor gardens were having a low year, but Chelsea is the first bright patch of flowers in this miserable gardening year.

Big print for poor sight

LLOYDS BANK is to produce large-print statements of account so that poorly-sighted people may read them better.

The new service has been developed by the bank in association with the Research Unit for the Blind at Warwick University.

The statements will have a specially designed set of characters and layout, and be produced by the bank's 3800 computer printer using a combination of laser and electro-photographic technology.

A chance that Winner Takes All

RACING

BY DOMINIC WIGAN

DOUG MARKS is again sponsoring the Flanagan and Allen Handicap and his representative, the Jimmy Tarbuck-owned Winner Takes All will be sure of a good reception if he comes good in today's renewal of the six-furlong sprint for four-year-olds and above at Brighton.

In a tricky race, in which a high draw will be a useful although not imperative advantage, backers will do well to examine the claims of that four-year-old, who is drawn three, and also the chance of the favourably-drawn Delta's Pride.

Unplaced on his initial two appearances this term, Winner Takes All, who never looked like obliging in 10 attempts last year, has found a new lease of life in the past few weeks.

A good third of 17 behind Effect and Pagapas Bay, in a six-furlong handicap at Folkestone early in May, Jimmy Tarbuck's Singing Bede colt went on to run Delta's Pride, from whom he was receiving six pounds, to one and a half lengths in Wolverhampton's Compton Handicap.

Winner Takes All has been set to meet his conqueror on three pounds better terms here and there should be little in it.

The market usually provides the safest guide to the outcome of the two-year-old races on this windswept seaside course and I shall be interested to see what confidence lies behind Admiral's Princess, Set n' Match and Travel On as they go to post for the Shoreham Fillies Stakes. Each of these three speedily bred youngsters showed promise in their initial runs.

Admiral's Princess, a half-sister to Admiral's Heir, cut out the running in Windsor's White-hall Stakes recently before tiring to finish third of 17 behind Silojoka. She is well fancied to give the Brighton specialist, Paul Cole, another two-year-old winner here.

Travel On, favourably drawn and representing Seven Barrows in deference to Travel Blues, may give the selection most to do.

Most of Martinmas's offspring relish plenty of cut in the ground and no one should be surprised if Tin Tessa leaves her previous form well behind in the Clayton Handicap.

BRIGHTON

2.00—Admiral's Princess**
2.30—Tin Tessa***
3.00—Delta's Pride
3.30—Kiss and Run*
4.00—Praed Street
4.30—Prince Lightning

CATTERICK

2.45—Chelleston Park
3.15—Wooly Wong
3.45—Martini Time

ENTERTAINMENT GUIDE

OPERA & BALLET

THEATRES

VAUDEVILLE. S. CC. 01-836 9988. Evenings 7.45. Matinees Wed. 2.45. Sats. 4.00. DONALD SINDEN. Dinah Sheridan, Gwen Watford, Polly Adams in PRESENT LAUGHTER by Noel Coward. Group sales Box Office 01-379 6061.

VICTORIA PALACE. CC. 01-828 4735-6. 01-834 1317. Evs. 7.30. Wed. and Sat. 2.45. Group sales 01-379 6061. ANNIE.

WAREHOUSE Donmar Theatre. Earlham Street, Covent Garden. Box Office 836 6808. ROYAL SHAKESPEARE COMPANY. Seats avail 7.30. OUTSKIRTS by Hanif Kureishi. All seats £3.50. Students £2.00 in advance from Aldwych Box Office.

WHITEHALL. Box Office Tel. 930 6692-7765. Credit card 839 6975. Whitehall's latest farce ANYONE FOR DENIS? by JOHN WELLS. Directed by DICK CLEMENT. Mon.-Sat. Evgs. 8.15. Sat. Mat. 5.0.

WINDMILL. CC. 01-437 6312. Twice nightly Mon.-Sat. 7.0 and 9.0 pm. Sun. 6.0 and 8.0 pm. Paul Raymond presents RIP OFF! Hotter than ever for 1981. The erotic experience of the modern era. 5th great year.

WYNDHAM'S. S. 01-836 3028. Credit card bkgs. 739 6565. Mon.-Fri. & Sat. 6 and 8.15. Belt and Braces in Dario Fo's ACCIDENTAL DEATH OF AN ANARCHIST.

TV/Radio

BBC 1

†Indicates programme in black and white

6.40-7.55 am Open University (Ultra High Frequency only). 1.12 pm Regional News for England (except London). 1.15 News. 1.30-1.45 Bagpuss. 3.53 Regional News for England (except London). 3.55 Play School (as BBC-2 11.00 am). 4.20 Hong Kong Phooey. 4.30 The Enchanted Castle by E. Nesbit.

5.00 John Craven's Newsround. 5.10 Wildtrack. 5.35 Paddington. 5.40 News. 5.55 Nationwide (London and South-East only). 6.20 Nationwide. 7.00 The European Champions' Cup Final: Liverpool v. Real Madrid. 9.15 News. 9.40 The Risk Business. 10.15 Alan Price. 10.45 Paperbacks. 11.20 "A Child's Voice" (award-winning film from Ireland, starring T. P. McKenna). 11.50-11.55 News Headlines.

All Regions as BBC-1 except as follows:

Cymru/Wales — 11.25 am-1.15 pm and 2.15-3.55 Cricket: Glamorgan v. The Australians. 5.55 Wales Today. 6.20 Eisteddfod Yr Urdd. 6.40-7.00 Heddiw. 10.15 Eisteddfod Yr Urdd. 10.30 Alan Price. 11.00 Paperbacks. 11.35 News and Weather for Wales.

Scotland—1.10-1.15 pm The Scottish News. 5.55-6.20 Reporting Scotland. 11.50 News Headlines, News and Weather for Scotland.

Northern Ireland—3.53-3.55 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 11.50 News Headlines; News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds); Look North (Newcastle); Look North-West (Manchester); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South-West (Plymouth).

BBC 2

6.40-7.55 am Open University. 10.20 Gharbar. 11.00 Play School. 4.50 pm Open University. 6.55 Take The Mike. 7.25 Mid-evening News. 7.35 Did You See . . . ? 8.10 Whose Art Is It, Anyway? 9.00 Rhoda. 9.25 Private Schulz. 10.15 Personal Pleasures With Sir Hugh Casson. 10.45 Newsnight. 11.30 The Pursuit of Power: Robert McKenzie talks to The Rt. Hon. Enoch Powell, MP.

LONDON

9.30 am Job Hunt. 10.10 "Friends of my Friends. 10.35 "Conflict of Wings," starring John Gregson. 12.00 The Munch Bunch. 12.10 pm Rainbow. 12.30 About Britain. 1.00 News plus FT Index. 1.20 Thames News. 1.30 Crown Court. 2.00 After Noon Plus. 2.45 Big Shamus, Little Shamus. 3.45 Play It Again. 4.15 Aubrey. 4.20 How. 4.45 Into The Labyrinth. 5.15 Mr. and Mrs. 5.45 News.

6.00 Thames News. 6.25 Help! 6.35 Crossroads. 7.00 Where There's Life . . . 7.30 Coronation Street. 8.00 "Gray Lady Down," starring Charlton Heston. 10.00 News. 10.30 And Did Corruptly Receive . . . 11.30 Mannix. 12.25 am Close: Sit Up and Listen with Lord March.

All IBA Regions as London except at the following times:—

ANGLIA

10.10 am Wednesday Morning Film: "The Bushbaby." 11.50 The Bubbles. 1.20 pm Anglia News. 2.45 Then Came Bronson. 4.20 About Anglia. 11.30 Quincy. 12.30 am The Big Question—David Self chairs the discussion on how we can believe that Christ "went up into the clouds" on Ascension Day.

ATV

10.10 am The Specialists. †10.20 Morning Cinema: "Only Two Can Play," starring Peter Sellers. 1.20 pm ATV News. 2.45 It's a Musical World. 5.15 Square One. 6.00 ATV Today. 6.05 Crossroads. 6.30 ATV Today. 11.30 ATV News. 11.35 SWAT.

BORDER

10.10 am Stingray. 10.35 Sport for All. 11.10 Thunderbirds. 1.20 pm Border News. 2.45 Fantasy Island. 5.15 University Challenge. 6.00 Lookaround Wednesday. 11.30 Border News Summary.

CHANNEL

1.20 pm Channel Lunchtime News, What's On Where and Weather. 2.45 It's a Musical World. 5.15 University Challenge. 6.00 Channel Report. 10.28 Channel Late News. 11.35 News and Weather in French followed by Epilogue.

GRAMPIAN

9.25 am First Thing. 10.10 Feature Film: "She," starring Ursula Andress. 1.20 pm North News. 2.45 The Love Boat. 5.15 Diff'rent Strokes. 6.00 North Tonight. 11.30 North Headlines. 11.35 Seachd Laithean, presented in Gaelic.

GRANADA

10.10 am Cartoon. 10.15 Tarzan. 11.00 Sesame Street. 1.20 pm Granada Reports. 2.00 Live From Two. 2.50 Young Ramsay. 5.15 Square One. 6.00 Granada Reports. 6.25 This is Your Right. 11.30 Rockstage.

HTV

10.10 am High and Wild. 10.35 Spiderman. 11.00 Sesame Street. 1.20 pm HTV News. 2.00 Houseparty. 12.25 "Turkey Time," starring Tom Walls, Ralph Lynn and Robertson Hare. 4.45 Bailey's Bird. 5.15 Dick Tracy. 5.20 Crossroads. 6.00 Report West. 6.30 Into the Labyrinth. 10.28 HTV News. 11.30 Mannix.

HTV Cymru/Wales—As HTV West except: 12.00-12.10 pm Flabalam. 4.15-4.20 Cartoons. 4.45-5.15 Straeon Y Byd. 6.00 Y Dydd. 6.15-6.30 Report Wales. 10.30 Eisteddfod Genedlaethol Yr Urdd. 11.00 Mannix. 12.00-12.30 am Police Surgeon.

SCOTTISH

10.10 am Sesame Street. 11.10 Al Oeming—Man of the North. 11.35 Stars on Ice. 1.20 pm News Headlines and Road Report. 2.45 It's a Musical World—Johnny Logan. 5.15 Popeye. 5.20 Crossroads. 6.00 Scotland Today. 6.20 Toye's Talk Back. 6.30 Sounds Gaelic. 11.30 Late Call. 11.35 Seachd Laithean.

SOUTHERN

10.10 am Kum Kum. 10.35 Chopper Squad. 11.25 Wild Wild World of Animals. 11.50 Cartoon Time. 1.20 pm Southern News. 2.00 Houseparty. 2.25 Story Hour. 3.15 Life Begins at Forty. 5.15 Undersea Adventures of Captain Nemo. 5.20 Crossroads. 6.00 Day by Day. 6.30 Scene Midweek (South East Area only). 11.30 That's Hollywood.

TYNE TEES

9.20 am The Good Word. 9.25 North East News. 10.10 Music Special (Benny Goodman). 11.00 Wilderness Alive. 11.50 Cartoon Time. 1.20 pm North East News. 1.25 Where the Jobs Are. 2.45 Young Ramsay. 3.15 Life Begins at Forty. 5.15 The New Fred and Barney Show. 6.00 North East News. 6.02 Crossroads. 6.25 Northern Life. 10.30 North East News. 11.30 Mind Over Matter. 12.00 The Church in Lesotho.

ULSTER

11.00 am Sesame Street. 1.20 pm Lunchtime. 2.45 Young Ramsay. 4.13 Ulster News. 5.15 Cartoon Time. 5.20 Crossroads. 6.00 Good Evening Ulster. 10.29 Ulster Weather. 11.30 Bedtime.

WESTWARD

10.10 am Sesame Street. 11.10 Survival. 11.35 Rocket Robin Hood. 12.27 pm Gus Honeybun's Birthdays. 1.20 Westward News Headlines. 2.45 It's a Musical World (Barbara Dickson). 5.15 University Challenge. 6.00 Westward Diary. 10.31 Westward Late News. 11.35 Faith for Life. 11.40 West Country Weather and Shipping Forecast.

YORKSHIRE

10.10 am "Robinson Crusoe and the Tiger." 11.56 The Undersea Adventures of Captain Nemo. 1.20 pm Calendar News. 2.25 It's a Musical World. 5.15 Diff'rent Strokes. 6.00 Calendar (Emley Moor and Belmont editions). 11.30 Mind Over Matter.

Radio Wavelengths

1	1053kHz/285m 1089kHz/275m	3	1215kHz/247m & 90-92.5vhf stereo
2	693kHz/433m 909kHz/330m & 88-91vhf stereo	4	200kHz/1500m & 92.95vhf

BBC Radio London: 1458kHz, 206m & 94.9vhf

Capital Radio: 1548kHz, 194m & 95.8vhf

London Broadcasting: 1151kHz, 261m & 97.3vhf

RADIO 1

(S) Stereophonic broadcast
‡ Medium Wave

5.00 am As Radio 2. 7.00 Mike Read. 9.00 Simon Bates. 11.00 Andy Peebles. 12.30 pm Newsbeat. 12.45 Paul Burnett. 2.30 Dave Lee Travis. 4.30 Steve Wright. 7.00 Radio 1 Mailbag. 8.00 Richard Skinner. 10.00-12.00 John Peel (S).

VHF Radios 1 and 2: 5.00 am With Radio 2. 7.00 pm David Symonds with Much More Music (S) (continued). 8.00 Listen to the Band (S). 8.45 Alan Dell with Dance Band Days. 9.15 With Radio 2. 10.00 With Radio 1. 12.00-5.00 am With Radio 2.

RADIO 2

5.00 am Ray Moore (S). 7.30 David Hamilton (S). 10.00 Jimmy Young Live from Tokyo (S). 12.00 John Dunn (S). 2.00 The Ed Stewart Show (S). 4.00 Steve Jones (S). 5.45 News and Sport. 6.00 David Symonds with Much More Music (S). 7.00 European Soccer Special: European Cup: Liverpool v. Real Madrid. 9.15 Among Your Souvenirs (S). 10.00 Stop the World. 10.30 Hubert Gregg says Thanks for the Memory. 11.00 Brian Matthew with Round Midnight. 1.00 am Truckers' Hour with Sheila Tracy (S). 2.00-5.00 You and the Night and the Music (S).

RADIO 3

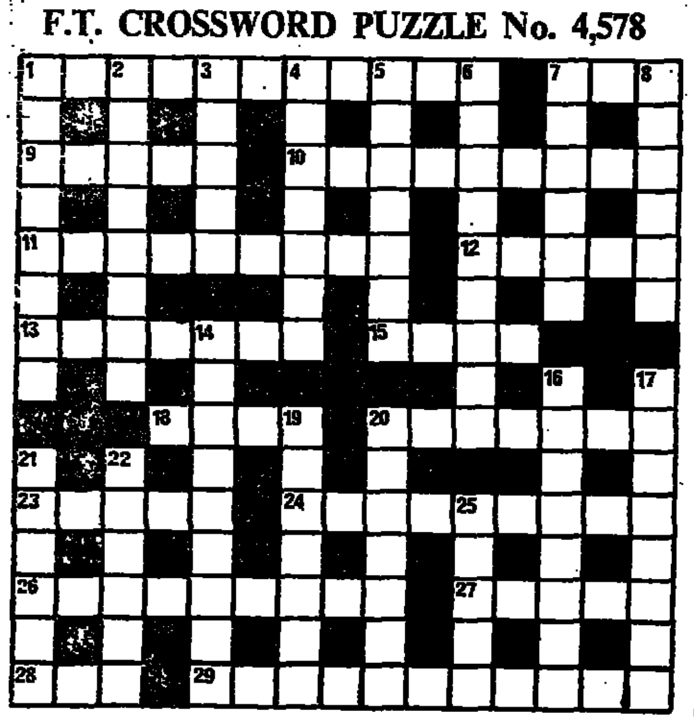
6.55 am Weather. 7.00 News. 7.05 Your Midweek Choice (S). 8.00 News. 8.05 Your Midweek Choice (continued). 9.00 News. 9.05 This Week's Composer: Schubert (S). 10.00 Bartok and Stravinsky clarinet, violin and piano recital (S). 10.35 Schumann and Britten choral recital (S). 11.25 Bournemouth Symphony Orchestra (S). 1.00 pm News. 1.05 Concert Hall (S). 2.00 Music Weekly (S). 2.50 Medici String Quartet (S). 4.20 Elgar: A performance of the Overture: In the South (S). 4.55 News. 5.00 Mainly for Pleasure (S). 7.00 London Symphony Orchestra concert, part 1: Mozart (S). 7.35 Six Continents. 7.55 Concert, part 2: Mahler (S). 9.15 The Verse of Thomas Thornley (1855-1949). 9.30 Schmidt's Hussars (S). 10.05 The Conversion of John Arden. 11.00 News. 11.05-11.15 Piano Nocturne (S).

VHF Only—Open University: 5.55-6.55 am and 11.15 pm-12.35 am.

RADIO 4

6.00 am News Briefing. 6.10 Farming Today. 6.25 Shipping Forecast. 6.30 Today, including 6.45 Prayer for the Day, 7.00, 8.00 Today's News, 7.30, 8.30 News Headlines, 7.45 Thought for the Day. 8.45 Lord Arthur Savile's Crime. 9.00 News. 9.05 Mid-Week. 10.00 News. 10.02 Gardeners' Question Time. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.05 Baker's Dozen (S). 12.00 News. 12.02 pm You and Yours. 12.27 The Buckingham Palace Connection by Ted Willis (S). 12.55 Weather; Programme News. 1.00 The World at One. 1.40 The Archers. 1.55 Shipping Forecast. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre. 3.50 Letter from my Barber's Chair. 4.00 Choral Evensong (S). 4.45 Story Time. 5.00 PM: News Magazine. 5.50 Shipping Forecast. 5.55 Weather; Programme News. 6.00 News including Financial Report. 6.30 My Music (S). 7.00 News. 7.05 The Archers. 7.20 Checkpoint. 7.45 Stuart Burrows in Concert. 8.45 Analysis. 9.30 Kaleidoscope. 9.59 Weather. 10.00 The World Tonight. 10.30 The Lord of the Rings by J. R. R. Tolkien (S). 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Unforgettables. 12.00 News.

F.T. CROSSWORD PUZZLE No. 4,578



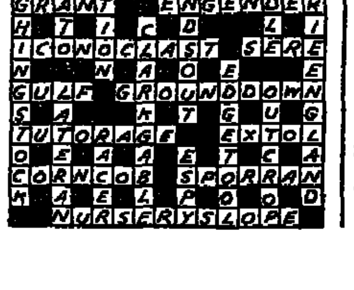
ACROSS

1 Supply food to column or it could be grub (11)
7 & 28 Spoil metal bird (6)
9 Abolish article removed from year-book (5)
10 Cosmetic container needs pride to catch (6-3)
11 Instruction that's straight-forward and I have to follow (9)
12 Indian duck with herb (5)
13 God returns to write a melody (7)
15 Transact business in wood (4)
18 One's favourite image (4)
20 Go a little way and increase the length of the stride (4, 3)
23 Smell of cooking from chicken I do relish (5)
24 Porter with fish and liquor inspector (3-6)
26 Eastern movement a learner follows with feeling (9)
27 Credit fish in fish-basket (5)
28 See 7 Across.
29 Slight heaving of ground could make dicky heart quiver (5-6)

DOWN

1 Covering one material with another for tot in clasp (8)
2 Guy producing wine with a string of onions (4-4)
3 A souvenir or object of historic interest (5)
4 Bill is singing well! (7)
5 Oil producer left in pip (7)
6 To restrict the supply of beer may be a solution (9)
7 A gang to outdo and it could go to a woman's head (6)
8 Be sorry for putting first of rings on bird (6)
14 Stress where sleepers may be seen (9)
16 Cusp on timber in tree (8)
17 Begin with the French ring-leader or alarmist (8)
19 Trainee becomes thinner without right (7)
20 Furtiveness needed to filch half of them (7)
21 Order a cut (6)
22 Notice to unite and be in contact (6)
25 Happen to be present (5)

Solution to Puzzle No. 4,577



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THE ARTS

Eyes in the sky, 'lies' below by CHRIS DUNKLEY

Television

The most significant event of the week in television current affairs was the publication of the Home Office study called "Direct Broadcasting By Satellite" (DBS).* The factual content was interesting enough, saying that Britain had been allocated a position in the sky for a geostationary satellite which could be providing up to five new channels of television within a few years for those willing to pay £200 or so for a dish aerial and ancillary equipment to receive and interpret the signals.

So far the suggested programme services would hardly seem to justify such expense: a self-financing "subscription" channel from the BBC offering newer feature films and first runs of "special" BBC opera, drama, music and sports programmes; a "Best of BBC Television" channel of repeats; and the same idea for ITV. But anyone interested had already heard most of that.

More fascinating than the document's facts is the feeling emanating from it, since it has a bearing on the future of *all* the electronic mass media. The tone is that of an aging nanny who has habitually ruled her brood with a rod of iron, but finds they are getting awfully big and able to out-run her.

From one end of the mass communication spectrum to the other matters are steadily moving out of the control of the state. At the parish-pump end, the Government having formally acknowledged the existence of Citizens' Band Radio finds precious little it can do to control the content.

Now at the other extreme we see the approach of DBS, and although William Whitelaw stoutly maintains in his forward to the report "any new DBS services would need to be subject to the supervision of a broadcasting authority, and to the same programme standards (for example, concerning taste and decency and impartiality) as apply to our existing broadcasting services" he must know that once DBS gets going internationally its "supervision" by British officials could be as problematical as our "supervision" of Radio Albania.

In terms of centralised control the electronic mass media are finally approaching the condition of print 500 years ago. So long as the making of books was slow and laborious and every copying scribe came under the authority of the Church it was easy to keep control of production. Moreover, with the scarce books thus produced chained to abbots' tables or university desks it was almost as easy to maintain control over those who had access to learning and information.

Movable type blew the whole cosy monopoly apart and—just as the authorities had always feared—after 1470 it was not just Bibles and prayer books that were mass produced but scurrilous tales about hypocritical prelates, and even pornography. The parallels today are obvious. Though the state still retains control over off-air broadcasting you can walk down London's Tottenham Court Road and find shops with vast supplies of pre-recorded videotapes and it is not only *The Bible* that's on offer (£39.95) but *Lustful Vicar* (also £39.95) and *Naughty Stewardesses* (£34.50)

Allowing freedom of expression (though complete freedom is rarely even tried, of course) does seem to mean tolerating a huge majority of rubbish, yet the dangers in a mature democracy appear to be mostly imaginary, so Government nervousness about extending to television such freedom as British print has seems a little odd. In politics, given the opportunity year after year to buy a Communist daily paper, the British public has steadfastly ignored it. Wide availability of "Mein Kampf" and "Das Kapital" has had no significant effect. Why fear politically partisan broadcasting?

A more important argument is that bad drives out good, yet not only does the print parallel again show that the good can coexist with the meretricious (look again at daily papers) but in television itself the BBC's fight back against early reversals following the introduction of commercial television with its quizzes and soap operas in 1955 proved hearteningly that high quality content can hold its own.

Which brings us finally to the real current affairs programmes of the week, and to a doubt about certain types of BBC current affairs programme which has been forming in my mind for some time.

Much of the BBC's work in this area is, of course, excellent—even if it is in unpredictable places. One would not have expected that the best piece of television journalism on the Deptford fire would turn up in Sunday night's *Heart Of The Matter*, yet it did. The tremendous success, so far with Benn and Powell, anyway, of Robert McKenzie's series of political interviews, *The Pursuit Of Power* was perhaps more forseeable and it is a pity that the set designer seems to be holding a dirty protest.

Tom Mangold's sane and sobering report on the rearming of America was the sort of dependable material that we are once again coming to expect from *Panorama*. True *Hindsight* has seen the disastrous application of a rather good idea (discussing events of the recent past with a key figure—rail cuts with Beeching, CND with Canon Collins, etc.) but it had nothing to do with my doubts.

Three of the week's programmes did, the first being *Images Of War*, another series exploiting wartime newsreels. The first episode finally made a good loud public admission of what film archivists have known for years: that the best bits of the famous and popular *Desert Victory* were faked. That has not stopped them appearing in previous war documentaries as "real."

But then *Images Of War* itself is not exactly obsessed with the truth. Roy Boulting was allowed to tell a story about Chamberlain calling it "apocryphal" which can only mean one thing. And although endless dinner parties have no doubt delighted in the yarn about the verger telling the crew who wanted to film the blitz from St Paul's that if they went to the dome it could cost them sixpence; does anyone really imagine that sixpence changed hands?

More important, when we cut to film of the blitz apparently shot from St Paul's were we really expected to believe that the street-level sound effects were floating unsullied all the way up to the dome? Though it pretends to a stern and upright integrity this series would be better entitled *Clips And Quips* and that is a shame, because ITV has shown the proper way to use archive film research in *The World At War*, and there is still clearly a great interest in the subject.

My doubt is that where specific codes of programme ethics are concerned the BBC is ever willing to follow where ITV has led.

The second example comes from BBC News, and while it may not be true that ITN has positively "led" I do not believe they would, nowadays, do what was done in Friday's BBC special on *The Yorkshire Ripper*. Not once but repeatedly the makers of this film took up a "Ripper's-eye-view" through the windscreen of a car touring red light districts, added multiple-image filters to dramatise the effect, and then laid an Edgar Alan Poe-style sound effect of a beating heart over the top.

It was not only an extraordinarily "subjective" piece of work to come from a department which is forever proclaiming its objectivity, it was also in excruciatingly bad taste.

With the third example, *People From The Forest*, there certainly are ITV models which BBC2 could, usefully and honourably, have copied. This work was concerned with the way that Andrei Sakharov progressed from being inventor of the Russian H-bomb and three times "Hero of Socialist Labour" to being the most important dissident still inside Russia. The programme worked well enough in conveying Sakharov's dignity and his immense and humbling courage, but it left a whole basketful of questions about its own techniques hanging in the air.

Was it all supposed to be true? Even the private conversations? In which case what were the sources? If not where did the fiction end? Were the repetitive symbolic images (downhill skier, rats in a maze, foetus, etc) Sakharov's own? If wholly the producer's creation what else was his? were the "documentary" photographs showing the actors supposedly in earlier momments of their characters' lives copies of real ones? Or mere fakes?

Drama-documentary is an invaluable tool in television's locker, especially for dealing with subjects such as Sakharov, but the more straightforward such programmes can be, the better. It is an area in which Granada's Drama-Documentary Unit has been working for some years with great pains, taking scrupulous care to explain at the beginning what the programme's intentions are, what sources have been used, and why the producers trust those sources.

A fragile yet admirable framework of grammar has been set up, and the BBC should have the grace to borrow it.

*

Being anti-sycophant one set out ready to dislike everything about *Snowdon On Camera* and ended liking almost everything. It was relaxed, opinionated, informative, and fun. Moreover Snowdon speaks clearly and looks good, both unfashionable characteristics for men on television of course but such a pleasant change.

* *HMSO, £4.50*

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Theatre Royal, Stratford, E.15

Anniversary Cabaret

by MICHAEL COVENEY

Sunday night was the 25th anniversary of Brendan Behan's *The Quare Fellow*, the production that first put Joan Littlewood's Theatre Workshop on the map, as far as English critics were concerned. She had, of course, been operating in Stratford's Victorian playhouse since November 1952, which was when her friend and manager Gerry Raffles took out the lease on the run-down premises set in the bustling street market of Angel Lane. When the firemen came to inspect the building, the company hid their beds and stowed pots and pans so as not to reveal the true extent of the occupation.

Philip Hedley's cabaret was an understandably nostalgic occasion, timed to coincide with the publication of Howard Goorney's account of Theatre Workshop from its earliest days. The company was formed by Littlewood and Ewan MacColl in 1945, but the pair had been working together since 1934 on a repertoire of classics and contemporary socialist drama. For years they toured the Manchester and Lake District areas with Molière, Marston, Aristophanes and an atom bomb saga, *Uranium 235*. The latter had gone down particularly well in Butlin's holiday camp in Filey just after the war.

As Mr. Goorney recounts in his modest and illuminating book, Ewan MacColl disapproved of the move to London and its inevitable growing reliance on critics and success. Miss Littlewood remains as ambiguous a character, in her way, as Brecht, and if Mr. Goorney's book has a major weakness, it is that the Littlewood enigma remains unexplained. She last produced a show at Stratford in November 1973 and, since the death of Gerry Raffles in 1975, has become increasingly reclusive in France.

On Sunday night, both Murray Melvin and Victor Spinetti made affectionate mockery of her predictable absence. Nobody was in the mood, however, to point out, as Mr. Goorney implies, that she was exhausted by her struggle by the early 1970s—just at the time, ironically, that the Arts Council felt like providing her with a reasonable grant. The local councils were equally unforthcoming with financial support and our greatest home-grown company, a contemporary complement to the posh city slickers at the Royal Court's English Stage Company, was killed with scandalously delayed kindness.

From 1958-61 there were five famous West End transfers from Stratford: *A Taste of Honey*; Behan's follow-up hit, *The Hostage*; Lionel Bart's *Fings Ain't Wot They Used T'Be*; Wolf Mankowitz's *Make Me An Offer*; and Stephen Lewis's *Sparrers Can't Sing*. The biggest hit of all, though, came in 1963 with *Oh, What a Lovely War*. All of these shows were remembered on Sunday by the actors who first performed in them. It was a joy in itself to see the café tables populated by the likes of George Sewell, Brian Murphy, Barbara Ferris, Frances Cuka, Dudley Sutton, Ann Beach, Patience Collier, Avis Bunnage and Henry Livings. Particularly moving were the sung Behan excerpts.

Joan Littlewood's great characteristic was to go for broke in all she did. She was consciously attempting to form a major theatre on the European scale of Meyerhold, Piscator and Stanislavsky. We now know she succeeded, but in a typically undersubsidised, chaotic British fashion. The theatre, now set in a mugger's paradise with the East-bound traffic roaring by on the motorway, is a defiant symbol of artistic enterprise in a harsh and unyielding environment. The Littlewood myth is as damaging to Theatre Workshop today as its spell is unbroken. What happens tomorrow is still unsure. But, on Sunday night, the beer flowed along with the tears, and all, for a brief moment, was right with the world.

* *The Theatre Workshop Story*, by Howard Goorney. Eyre Methuen. £8.95 (hardback), £4.50 (paperback). 226 pages

Richmond Theatre

Smash! by MICHAEL COVENEY

Jack Rosenthal is extracting good (in the sense of long) mileage from his 1976 TV play, *Barmitzvah Boy*. First, he turned it into a less than successful stage musical. Now the experience of making a flop musical forms the basis of a less than satisfying stage comedy. *Smash!* is a bitter comedy about how all those stupid, nasty showbiz people go around trampling on delicate creative blooms like ... well, one presumes Mr. Rosenthal ... or, in this case, a likeably daft lady novelist played by Maureen Lipman.

The trouble is that no good argument is ever advanced to suggest that the musical *could* have been good. The production is a disaster from the moment a jump mittel-European producer welcomes Liz to New York with offers of muffins and surplus energy. This fidgeting idiot has assembled an ad hoc team—inexperienced novelist, hot director, wizened Broadway tunesmith and unknown lyricist in the belief that artistic combustion will automatically follow. Of course it doesn't and, apart from a few stretches of spiky dialogue and the usual backstage jokes about theatre folk, Mr. Rosenthal has run out of material by the interval.

The action moves from New York to a Tufnell Park rehearsal hall and a Manchester hotel bedroom on opening night—it is here that, with London looming, the scenery is thrown away, re-writing reaches fever pitch, most of the production team start diving for Liz's pants and, to top it all, a night waitress delivers an unfavourable opinion alongside the cheese sandwiches. This, too, is where Nigel Hawthorne's brilliant creation of the flapping impresario really takes off.

In Act Two, there is an on-stage inquisition of the over-dressed director, (Stephen Moore) that develops unconvincingly into a brawl; a spuriously triumphant London opening night (Robin Archer's beautiful design here incorporates a theatre-office and segment of sweeping dress circle all in one); and morning-after depression with the reviews in a luxury hotel.

Loose ends abound: the superfluous scene with one of the cast who never reappears and Liz's sudden lack of insistence on the matter of a contract are minor examples. John Bluthal's appallingly vain composer is just one reason why Liz should never have expected a success. But even this play about a disaster is not accident-free. Larry Adler as the awful composer was replaced on tour by Mr. Bluthal and a Cambridge Theatre Company spokesman was unwise or generous enough to reveal in the interval that Jonathan Lynn had just taken over the show's direction from Barry Davis.

Leonard Burt

Elizabeth Richardson and Garry Cooper

Lyric Studio, Hammersmith

Britannicus by ROSALIND CARNE

Normal translation problems apart, Racine is apt to feel flat and bombastic in English without the carefully weighted tension of the Alexandrine measure. This highly charged production by Christopher Fettes uses a dignified version by John Cairncross which both is, and sounds like, verse.

Never once over-stepping the classical limits—visual, verbal or temporal—Mr. Fettes presents an evening of potent terror and pity. *Britannicus*, a shamefully under-exposed play, is the tragedy on which Racine claimed he had worked the hardest. It is set in the Roman Court of the young Emperor Nero and concerns nothing less than the creation of a monster.

He and his mother, Agrippina, battle for supremacy in the grim confines of an imperial ante-chamber—enclosed here in stark brick and concrete, with a slatted steel door which clanks shut to keep people out or in. Only the pair of leather-clad guards, complete with shades and jack-boots, give an unnecessary touch of gimmickry.

Rather than have the actors raised platform-high for their grand declamation they remain at audience level, constrained as the verse they speak. In modern, even modish dress, hair neatly coiffured by Sassoon, any one of them could have stepped out of a swanky cafe on the Via Veneto. Yet the chosen style produces the required distancing quite as well as yards of blanket.

Jonathan Kent's twitching wild-eyed Nero suggests a madness that has all but burst its bonds. He becomes a man possessed, but ever aware of his possession. In his self-confessed love for the virtuous June (Elizabeth Richardson), there is neither lust nor self-interest, rather a determination to defile all that is good, and his passion is far better realised in jealousy than in desire. It is a fiendishly difficult part and Mr. Kent is electrifying.

Siobhon McKenna is carefully graduated as Agrippina. All but cast down at first, she rises heroically to the confrontation with her son—a splendid scene. Here Mr. Fettes injects a note of perversity entirely in keeping with the warped morality of the imperial court. Her triumph after the meeting shows in every trembling line of her face and she reappears majestic in the final act, sweeping across the chamber in a floor-length evening gown, ironically sure of victory, before the ghastly denouement.

Britannicus himself (Garry Cooper), the innocent victim of Nero's cruel designs, is brilliantly directed as the only performer to move with natural ease and passion in this purposely static drama. There is strong support from Alan MacNaughton as the upright military man, Burrus, and from Donald Pickering as the unctuous Narcissus, Nero's evil genius.

Haymarket Studio, Leicester

A Touch of the Poet by B. A. YOUNG

This was meant to be one of a long cycle of plays, in which Eugene O'Neill was to chronicle the decadence of the U.S. The cycle would trace the conflict between two contrasted families, represented in *A Touch of the Poet* by Major Cornelius Melody and Simon Harford. Melody has fallen on hard times and runs a tavern, where his wife is the cook and his daughter Sara the waitress. Simon Harford, whom we never see, is the heir to his father's wealth but wants to quit that world and live close to nature. The date is 1828, the place New England.

The play lasts nearly 3½ hours: but the plot is simply a matter of overcoming parental opposition with a sexual short-cut. What keeps it interesting is the scrupulous detail in which the scene and the characters are presented. Major Melody is not a real major, having resigned his commission in the 7th Dragoons after a scandal. He is not even a gentleman but he plays hard at being both: he loves to tell how Wellington congratulated him on his bravery after the Battle of Talavera. The whole play takes place on the anniversary of that engagement which the Major always marks by wearing his old uniform and throwing a party—at which he can do no better for the guest of honour than a retired corporal, while his family do the work.

Bill McGuirk can't fail to make something of him as long as he gets all the words right, for O'Neill has drawn a character as vivid as a figure in a Gillray cartoon. As his daughter Sara, Niamh Mahon combines genuine affection for her parents with a sly ambition to make Simon before he recovers from the fever which confines him to his bed in the tavern, and her private smile when she comes down stairs after seducing him is as expressive as all the words she uses to explain the position to her mother. Her mother is ably played by Ann O'Connor; Simon's mother, (Barbara Berkley) doesn't bring the hauteur to the part that she should. Miss O'Connor has to describe herself as fat, and Miss Berkley as skinny; they might have been describing one another.

The director, Roland Jaquarello, has kept things moving over O'Neill's ultra-talkative patches: but he couldn't persuade me to admire the play's last 10 minutes where the Major, after being clubbed in a rough house, turns back into the Irish peasant he has worked so hard at not being. The play next visits Sheffield, Manchester and Liverpool and is worth catching as a collector's piece.

Rosa Ponselle

Rosa Ponselle, one of the most famous operatic sopranos of the century, has died at Baltimore at the age of 84. Born in America of Italian parents, she gained early experience in popular music and vaudeville. She was heard by Caruso, who advanced her career, and together they appeared at the Metropolitan in *La forza del destino* in 1918—Verdi heroines and Bellini's Norma were to form the basis of her repertory.

Ponselle's sumptuous, perfectly balanced soprano was marked by a fullness and a majesty of style that raised her to the highest level of Italian opera singing; many records survive to show the nobility and splendour of her art. She retired early, in 1937, and in subsequent years was involved in the activities of the Baltimore Opera and Symphony.

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The IMF at a crossroads

THE SELECTION of chairmen at international meetings is normally a relatively dull event: the news follows later. In Gabon last week, at the gathering of the policy-making interim committee of the International Monetary Fund, the order was reversed.

Developing country delegates displayed new-found political muscle in pushing through the appointment as interim committee chairman of Mr. Allan MacEachen, the Canadian Finance Minister, who is renowned for his sympathy to Third World problems. They did so in the teeth of opposition from the U.S. The Reagan Administration felt that Sir Geoffrey Howe, Britain's Chancellor of the Exchequer, would be a better candidate to advance its market-oriented international economic policies.

The victory of the developing countries, assisted by some of the smaller industrial nations who also favoured Mr MacEachen, symbolises an important change that has been taking place gradually at the IMF.

Big borrowers

Third World countries have become the Fund's largest customers, while one of their number, Saudi Arabia, is by far the largest contributor to the IMF's programme to stock up its lending resources. So it is natural that developing nations are also seeking more say in the running of the Fund. Evidence that they are succeeding comes not only from the rebuff delivered to the U.S. in Gabon.

Since the 1979/80 oil price shock, the Fund has greatly enlarged Third World access to its lending facilities. The decision in March to double the Saudi quota in the Fund—making it the sixth most important member in terms of quotas—has given developing countries a permanent representative on the executive board.

The changes are in step with reality. The Fund is now a different institution from the international central bank set up to administer the fixed exchange rate system after World War Two. With the advent of floating rates, and more recently the arrival of an American administration which believes in letting interest rates—and the dollar—fluctuate freely, the currency system is left more or less to look after itself.

Rather than supervising the economies of its industrialised members, the fund these days is preoccupied with finance for developing countries. In contrast to the heavy borrowings by Britain and Italy during the mid-1970s, no industrialised nation has borrowed from the fund since 1979. The last big country to come for a loan was the U.S. in 1978.

Loans to developing countries, on the other hand, are running at record levels. Total commitments in the first quarter spurted to over $5bn, more than half the sum of the whole of last year and double the average for most of the 1970s.

The changed distribution of lending reflects a number of factors. The most crucial has been the re-emergence of an OPEC surplus which looks likely to remain at around $100bn a year at least until 1982, and whose counterpart deficit lies most heavily with the non-oil developing countries.

Developed countries running big deficits, like West Germany, Japan and France, this time round have been able to raise funds in comfort either from the credit markets or directly from the Arabs. The non-oil developing countries have turned to the fund.

The bulk of IMF lendings still imposes rigidly-monitored economic conditions on borrowers. But the Fund now lends much greater amounts and for longer periods. It also avoids the over-dogmatic insistence on deflationary policies which turned it into an international bogeyman a few years ago.

The industrialised world should be satisfied with the Fund's response. Increased IMF lending, providing an authorised signal that countries are following broadly correct policies, attracts bank loans which would otherwise stay away. It guards against the international loss of confidence that would result from a big Third World loan default.

Divisive issues

There is also little sign—despite apparent fears of some members of the U.S. administration—that the Fund is turning itself into simply a development agency. That job should continue to be done by the World Bank.

There is every reason for industrialised and developing countries to work together in strengthening the IMF in its new role and not to allow the institution to become bogged down in the ideological disputes which have bedevilled some other international agencies. There are some potentially divisive issues to be settled, such as the next distribution of Special Drawing Rights, which both the U.S. and Britain oppose on the grounds that world liquidity is already ample. But there is a surprising degree of agreement on the part of developing countries on the priority that must be given to the battle against inflation. The industrialised countries, especially the U.S., need to recognise that sound fiscal and monetary policies are not incompatible with action to alleviate the problems of the developing world.

The drive for shorter hours

WITH SINGULARLY fortunate timing, the Confederation of British Industry has produced a set of guidelines on working hours within days of the Mitterrand victory in France, which has noticeably encouraged the TUC in its demand for a shorter working week. Shorn of a certain amount of gloomy rhetoric, which may well prove counter-productive, it is a useful and realistic document which deserves study by everyone involved in bargaining over hours.

The CBI is clearly worried on two counts. The first is that its members, facing depleted order books, may well see a demand for shorter hours as a relatively cheap way to buy goodwill and restraint on other fronts, without taking proper account of the costs; and the second is that on the trade union side, the whole campaign is based on what is largely a delusion—that a shortening of hours can create new jobs. This notion, which is based on dangerously over-simplified arithmetic, has unfortunately been endorsed by President Mitterrand. Unless countered, it can only lead to disillusion.

Damaging

The fact is, of course, that a shortening of the working week without cutting pay is basically a cost increase, and will have very much the same effect as an increase in hourly pay. This has damaging implications for jobs, as union bargainers have recognised during the current pay round: shorter hours are only preferable if they help to achieve higher efficiency, just as is true of pay.

This is by no means impossible: provided that both sides recognise the challenge, there are few organisations which could not economise in wasted time, or gain from improved time-keeping. The incentive to maintain output as well as pay will be stronger if any concession on hours is packaged in a form which offers a worthwhile increase in leisure—probably a shorter fifth day, or extra holidays.

However, if the union side embarks on a negotiation in the hope that a reduction in working hours will create extra jobs, or even stave off the need for otherwise necessary economies in manpower, the outcome could easily be more damaging than a straight pay concession.

Differentials

Shorter hours for employees must normally mean shorter hours for the enterprise as a whole; worksharing is seldom possible within the constraints of an integrated production process, as the CBI points out. Of course there are some enterprises, such as those with a strong seasonal variation in workload and extensive use of part-time labour, where worksharing may be a practical possibility; but this needs to be proved case by case, and is in any case a further cost burden which needs to be financed through efficiency.

Assuming that these underlying realities are recognised, employers could still face acute problems in getting through the minefield of differentials. Many claims for shorter hours or longer holidays may be supported with a plea for equal treatment with administrative staff. The staff will in due course counter with a claim to have their differentials restored.

If the issue of hours forces employers to resolve these problems, something important may be gained from the present union campaign. The habit of compensating white-collar staff for pay inadequate to their supposed skills with various conspicuous privileges is a thoroughly bad one, which breeds resentment and discourages the really able; but privileges may have to be bought out.

THE STRATEGIC ARMS DILEMMA

The U.S. confuses the issue

By Bridget Bloom

FOR THE first time since the U.S. election, Russian and American officials will today sit down to discuss control of nuclear weapons. Ironically, the Geneva meeting will concern one arms control treaty which has formally expired, and another which has not been ratified. And the talks in the Swiss city will not even touch on limiting the so-called theatre nuclear weapons in Europe which have recently been so much in the news.

Rarely can arms control negotiations have been in a more confusing—not to say confused—state. The political need for talks to try to slow down the nuclear arms race seems more pressing than ever as both East and West continue to build up their already huge nuclear arsenals. In virtually all of Nato's 13 European members, nuclear disarmament lobbies are growing; in some countries, notably West Germany, the nuclear issue even poses a threat to the Government's stability.

Yet despite a series of Nato meetings over the last few weeks designed to hammer out a common approach to Moscow, there is continued divergence within the Western alliance about what to do next.

At today's meeting in Geneva, one part of the tangle will come under review, but it is not the sort of meeting from which solutions are expected. The Joint Standing Consultative Commission of the U.S. and the USSR will discuss whether either side has violated the 1972 Strategic Arms Limitation Treaty (Salt), many of whose provisions have expired—although they are being informally adhered to. But the officials are bound also to discuss the second Salt treaty—which was concluded in 1979 but, because of the Soviet invasion of Afghanistan and increasing opposition in the Senate, was never ratified by the U.S.

By far the most important key to the current arms control confusion lies in the fact that so far the Reagan Administration has no policy on nuclear arms control. When it took office last January, the new Government declared that it needed six months to formulate a policy on Salt 2, which President Reagan had campaigned against as being fundamentally flawed.

There is still no sign of that policy. However, on the one hand Mr. Reagan is increasing the U.S. defence budget to meet what his Administration perceives as a growing Soviet military threat. And, on the other, he has been pushed by his worried European allies into a commitment to "meaningful" arms control negotiations with the Russians by the end of this year.

CHANCELLOR SCHMIDT
Putting on the pressure

PRESIDENT REAGAN
No precise date

The Europeans are mightily relieved to have got that pledge: Chancellor Schmidt, who was in Washington last week, heads the list of those who need the talks to stave off growing political hostility to the basing of yet more nuclear weapons in Europe: he has declared the matter a resigning issue.

But a few European Governments have begun to worry that the commitment to re-arm America and, in a sense, to go sideways into arms control talks, may not be the best way of producing a coherent policy on East-West relations. Most Governments certainly recognise the fragility of the understanding on theatre nuclear force (TNF) control talks which the U.S. so painstakingly reached with its NATO partners in half a dozen top-level meetings over the past couple of months.

This fragility springs from three factors which could push the negotiations off course before they even begin:

- The Russians may say they are not ready for talks. Mr Alexander Haig, U.S. Secretary of State, told Nato foreign ministers in Rome that he would discuss procedures for negotiations with Mr. Andrei Gromyko, the Soviet Foreign Minister, when the two men meet during the UN session in New York in September. Negotiations would begin by the end of the year Mr Haig agreed, but even after pressure from Chancellor Schmidt last week, President Reagan refused to set a precise date.

There have barely been soundings on the issue with the Soviets and it is therefore possible, if unlikely, that they will say they are not ready for talks.

- Mr Haig made clear that negotiations would be dependent on Soviet behaviour around the world—especially towards Poland.
- There are residual doubts about the firmness of the U.S. commitment to talks.

The most fundamental worries, however, stem from the uncertainty of U.S. policy on Salt: as the guide below indicates, to talk about limiting nuclear weapons such as the U.S. Cruise and Pershing and Russian SS20s without having an accepted framework for controlling the strategic or intercontinental weapons of both sides is to put the cart way ahead of the horse.

Arms control negotiations are inevitably highly complex and very slow. They stand little chance of even limited success if there is no accepted technical and political framework in which they can take place.

In other words, unless Washington can accept the Salt framework or put something at least as coherent in its place and unless it can agree (within the Administration itself and between Washington and European capitals) on the role which arms control is to play in relations with the Soviet Union, then the planned talks on TNF could prove dangerously unproductive.

Arms control: the story so far

THERE HAVE been four main sets of East-West arms control negotiations. Two, concerned with strategic and medium-range nuclear weapons, are stalled. Progress in the other two areas, covering conventional weapons and general security, has been minimal.

Negotiations on nuclear weapons have always been exclusively between the Soviet Union and the United States. Britain and France, with China the only other nuclear powers, do not have a seat at the table, and their nuclear forces are not subject to the arms limitation agreements.

However, both Nato and the Warsaw Pact take part in the negotiations on conventional weapons—the Mutual and Balanced Force Reduction talks (MBFR), as well as in the broader 35-nation Conference on Co-operation and Security in Europe (CSCE), now in its seventh month in Madrid.

SALT 1

STRATEGIC Arms Limitation Talks (Salt) began in 1968 and resulted in two treaties between the U.S. and the USSR. Salt 1 was signed in Moscow by President Nixon and Mr Brezhnev in 1972 and Salt 2 by President Carter and the Soviet President in June 1979.

Both treaties limit the number of intercontinental nuclear weapons possessed by either side: the limitation is launchers rather than the missiles themselves which would be more difficult to count.

A key difference between Salt 1 and 2 is that whereas Salt 1 established an interim freeze on missile launchers, the more comprehensive Salt 2 established a series of ceilings, thus introducing the principle of parity.

In Salt 1 only two main categories of launchers, land and submarine based, were included. In Salt 2 the net was widened, particularly to include bombers and to put limits on multiple warhead missiles. In this sense, Salt 2 was judged an improvement on Salt 1 which was seen by the U.S. to have left the Soviet Union with a numerical advantage of about 40 per cent in land based weapons (though not in overall nuclear capability).

WEAPONS CONTROLLED BY SALT

- **All ICBMs (land-launched intercontinental ballistic missiles). U.S.: 1,054 Minutemen and Titan. USSR: 1,398 SS ("surface to surface")-9; SS 11; SS 13.**
- **All SLBMs (submarine-launched ballistic missiles). U.S.: 656 Poseidon and Polaris. USSR: 950 SS-N 8 and SS-N 18 on Yankee submarines.**

Principal weapons left out of Salt 1: Heavy bombers: the U.S. B52 (573) and the USSR Bear and Bison (156).

Salt 1 expired in 1977 although the Anti-Ballistic Missile (ABM) Treaty, signed at the same time to limit the defensive (opposed to offensive) missile systems of both sides, remains in force. It comes up for review next year.

The Standing Consultative Commission, a joint U.S.-USSR body established to supervise Salt adherence, is still in existence. It meets today for the first time since the Reagan election. It is generally agreed that despite arguments both Salt treaties have been honoured.

WEAPONS CONTROLLED BY THE ABM TREATY
All defensive anti-ballistic missile launchers. The original 1972 agreement was that the U.S. and USSR should both have two ABM sites each with 100 ABM launchers. One site would protect the capitals and the other an ICBM site. In 1974 it was agreed that these should be reduced to one system each. The U.S. protects its Minuteman missiles at Grand Forks, North Dakota, while the USSR chose to protect Moscow.

SALT 2

U.S. ratification of Salt 2 was postponed following the Soviet invasion of Afghanistan and there is now great uncertainty as to what, if anything, might be put in its place.

Last January, the new Administration said it needed six months to formulate its policy on Salt and related matters. During the election campaign, Mr. Reagan had described the treaty as "fundamentally flawed," a view reiterated by Mr. Caspar Weinberger, Secretary for Defence, in Bonn last month when he told Nato ministers that any future agreement had to be verifiable, balanced and must contribute to international stability. Salt had done none of these things, he said.

WEAPONS CONTROLLED BY SALT 2
All ICBMs, and all SLBMs, including those systems which had meanwhile been "Mirv'd"—given Multiple Independently Targetted Reentry vehicles—to allow more than one warhead per missile. All heavy bombers.

	U.S.	USSR
ICBM launchers	1,054	1,398
ICBM fixed launchers	1,054	1,398
Mirv'd ICBMs	550	608
SLBMs	656	950
SLBMs (mirv'd)	496	144
Heavy bombers	573	156

(Figures as of signature of Salt 2 on June 18, 1979)

PRINCIPAL WEAPONS LEFT OUT OF SALT 2: The U.S. FB 111 and the Soviet swing wing medium range bomber. Salt 2 also prohibited deployment, but not development, of the U.S. MX missile.

THEATRE FORCE TALKS

THERE is some confusion over terms used to describe weapons covered by the long range theatre nuclear force (LRTNF) talks, which essentially involve a new generation of European based missiles which were only marginally, if at all, limited under the Salt 2 treaty.

The term "theatre" is used by the U.S. to distinguish weapons based outside the U.S. from those based domestically, which are dubbed strategic. The U.S. however characterises the weapons as long range, whereas the Soviet Union and European states tend to call them medium range.

There has been only one session of LRTNF talks—in October 1980. Little was achieved, partly because of the imminence of the U.S. election.

The talks stemmed from a Nato decision in 1979 to "modernise" the alliance's nuclear forces. To reinforce the credibility of the U.S. commitment to Europe, as well as to meet what was described as a growing threat from Soviet "theatre" weapons (particularly the SS20) Nato decided to base 572 U.S. owned and operated cruise and ballistic missiles in Europe from December 1983.

At the same time however Nato agreed that the U.S. would seek talks with the USSR to negotiate a similar "equal limits" agreement on LRTNF as was provided for strategic weapons under Salt.

WEAPONS FOR LRTNF
Ground launched cruise missiles (GLCMs) and ballistic missiles with ranges over 1,000 kms

- **U.S.: 464 Tomahawk cruise (GLCM) and 108 Pershing 2 ballistic missiles (these are to be based, beginning in December 1983 and ending some five years later, in Germany (108 Pershing 2s to replace existing Pershing 1 and 96 GLCMs), Britain (160 GLCMs), Italy (112 GLCMs) and Belgium and Holland (48 GLCMs each).**
- **USSR: SS 4s and SS 5s (440) and SS20 ballistic missiles (220). It is estimated that roughly two-thirds of these missiles are directed towards western Europe (the rest to China).**

WEAPONS NOT IN TNF

- **The Soviets want U.S. forward based systems (FBS) which they define to include the U.S. F111 based in the UK, the U.S. F-4s based in Germany and aircraft carrier-based aircraft. The U.S. would then include the USSR TU 26 (Backfire) bomber.**
- **Tactical or so called Battlefield weapons: these range from artillery shells and nuclear mines to nuclear capable aircraft with normal ranges of under 1,000 km.**

The European paper feature on this page yesterday was written by William Hall, and not by John Moore.

MEN AND MATTERS

The cathedral? . . .

It may drop on to the mat this week if you should be fortunate enough to preside as head of state over a Commonwealth, Nato or Common Market country, or to have hosted Prince Charles on an overseas tour. Otherwise, unless you happen to be a blood relation of the Prince of Wales or Lady Diana Spencer, I am afraid that your chances of being invited to the Royal Wedding are rather slim.

The 2,500 invitations will go out from Buckingham Palace in the course of this week and I suspect that the replies sent to the Lord Chamberlain will for the most part be in the affirmative. "It isn't a State occasion, it's a family occasion," says the Palace—though the guest list does include politicians, clergymen, civil servants and members of the armed forces and local government.

You could, if you have already told the neighbours how much you look forward to going, try a tout—er, ticket broker—but probably without much luck. "A tough nut—we're not interested," "wouldn't touch it unless I already had a punter," were characteristic responses when I tested the market-makers yesterday.

. . . or the Abbey?

Finally, if the worst comes to the worst, you can join the crush to watch the procession on its way from the Palace to St. Paul's Cathedral, and then dash back to see the action on television. Not of course, that a good seat on the route will come cheap. London tour operators have been tying up prime sites along the route with offers of up to £150 per viewer. Where a clear view of the cathedral steps is commanded, the bidders have included the world's television companies.

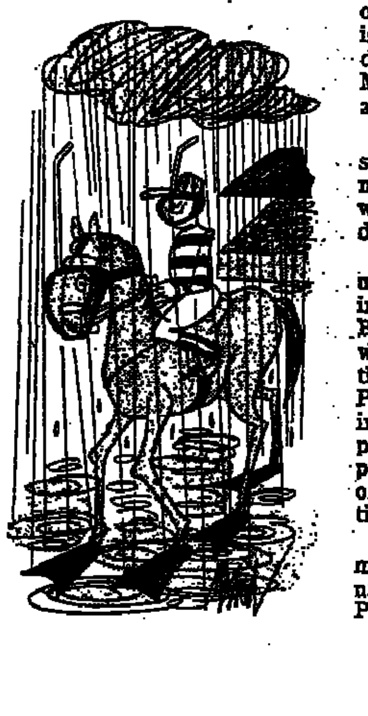
Most of the property fronting on to St. Paul's is occupied by banks, including Barclays, NatWest, and Bank of America which, for security reasons, are not prepared to allow television cameras or crew on to their premises.

Barclay's Bank Trust Company is a major occupier of Juxon House, a confetti-throw away from the cathedral's doors. "We could have made money from letting the offices, but the security would have been a nightmare," explains general manager Michael Emm. "Instead, we have let the staff of around 500 plus their families view the wedding. We have also invited the main Board of Barclays Bank, but not the directors of the merchant bank or Barclays Bank International." About half the main Board has accepted the invitation.

Over the road, and on Church Commissioners' land, NatWest and Daiwa Securities have both foregone a quick turn on the Royal Nuptials. "We rejected approaches from people offering us £145 for each person we allowed to view the wedding from our offices," explains Daiwa director Michael Broadhurst, "and we could have made a profit of about £45,000-£50,000, but think this to be vulgar."

It is Abbey Life, the ITT-owned insurance and pension group, which television watchers will have to thank for their view of the cathedral entrance. It has agreed to let camera crews from BBC, ITV, and America's CBS and ABC film from its City rooftop.

Charles Wodehouse, a director of the company, says it "is not making money from the television companies. The money we get from them will just about cover expenses of keeping the office open and providing staff with some hospitality on the day."



Brief encounters

The early days of office may hold a few surprises for at least some members of the 42-strong French Government team appointed by President Francois Mitterand and Prime Minister Pierre Mauroy. All but two of them are ministers for the first time, and in some cases, the portfolios they clutch have names equally new to the electorate.

The novelties have the ring of operetta about them. There is a Minister of National Solidarity, a Minister of the Sea, a Minister of Women's Rights and a Minister of Free Time.

Behind Solidarity lurks a super-social security department, covering everything to do with families, pensions and the deprived.

The Sea, which mostly came under Transport before, is inevitably entrusted to a Breton. The Communist Party, which rules in the ports, wanted the special ministry, though the President, in a pre-election interview that some malicious person has dug up and re-published, had earlier written off the idea as an "administrative gimmick."

Women's Rights is a more muscular version of the Feminine Condition post created by President Giscard. The Minister-Delegate, Yvette Roudy, says the department's job is to work towards its own obsolescence. After a good start—a record of six women in the Government, including for the first time a woman Farm Minister—the Socialists are having trouble fulfilling their promise of one woman for every three men in their list of parliamentary candidates.

Free Time, which covers sport, is a resurrected version of the Leisure portfolio created by the pre-war Popular Front. The Right at the time called it the Ministry of Sloth. But the Minister has already been caught working on Sunday.

Meanwhile, the University Ministry has disappeared, Economics and Finance have been joined up again and Foreign Affairs has changed its name to External Relations. The old name, apparently, sounded too alien and detached, and it was felt the Quai d'Orsay should play a new role in France's dealings with the outside world, having long lost its monopoly in that field.

On the beach

After two weeks of sun and bustle at Cannes, with topless film persons dispensing bottomless entrepreneurial energy on the Croisette and points south, the Film Festival jury goes into rainy recess today to begin its deliberations for the Palme d'Or. Firm among the favourites for Best Film are two British-made entries, Hugh Hudson's Chariots of Fire and John Borman's Excalibur.

Helping the British presence loom even larger is Lord Grade, who crowned with cowboy stetson, gave his annual lunch at the Eden Roc Hotel. The ACC magnate conceded that, while he did not raise the Titanic as high as he had hoped, he promised more and better UK-backed films to come.

Observer

FINANCIAL TIMES SURVEY
Wednesday May 27 1981

WORLD BANKING

PART II: Part I appeared on Monday May 11

Retail banking has come to the fore in recent years as an area offering considerable scope for expansion. Developments in electronics technology have lent added impetus. This section of the survey reviews pointers for this decade.

High promise in retail sector

By Michael Lafferty

THE RETAIL, or consumer, banking market has significantly different attractions for bankers around the world. In the U.S. one encounters an increasing band of enthusiasts within virtually all the leading banks who seem to see unlimited opportunity in the area in this decade. Their plans in general stretch far beyond the U.S., into many of the developed and underdeveloped countries of the world.

In Continental Europe, on the other hand, retail bankers have not yet got around to thinking about retail banking outside their own borders, except in so far as the travel needs of their domestic customers are concerned. In these banks international banking is automatically assumed to mean wholesale banking — and the views of many top wholesale bankers about retail banking are hardly printable.

In between these two segments is another group of banks whose senior executives are beginning to realise that the retail market has considerable opportunity in coming years. The group certainly includes British banks like Barclays, Midland and Standard Chartered, as well as Royal Bank of Canada. Such banks have vast experience in serving the consumer in domestic markets through branch networks, and over the years they have built up further networks outside their home countries. The decision they now face is whether, and how to integrate these separate businesses.

So while there is much increased confidence in the banking consumer among banks and near-banks around the world, the responses are very mixed. In the U.S., at one extreme, Mr Leeland Prussia, deputy head of Bank of America, makes visionary speeches drawing parallels between what happened to wholesale banking in the sixties and what is now beginning to occur on the retail side. In West Germany, however, Dr Helmut Geiger, president of the Federation of Savings Banks, said this month that savings banks — which hold major shares in national retail markets—should help each other, but never compete across national borders.

Having said all this there is a detectable heightening of interest among banks around the world in respect of the consumer market. To some extent this is motivated by the opportunities afforded by a period of high interest rates. But there is also considerable evidence that banks see the consumer market as offering the greatest potential when compared with other markets — like multinational companies, governments, etc. — where there is now intense competition and margins are slim.

No less an internationally oriented wholesale bank than Chase Manhattan of New York falls into this category. A review conducted a couple of years back identified the consumer as offering Chase the greatest potential. Yet at that time the retail side of Chase was regarded as "the sump of the bank," according to Mr Fred Hammer, senior executive responsible for consumer banking.

It is hardly surprising that the big banks of the world should be devoting proportionately fewer resources to syndicated lending, given the margins now available. There can, so the argument goes, be little attraction in lending Poland more money to pay back the interest on the loans it already has. Similar sentiments are heard about certain areas of the multinational company sector, where there have been major problems over the past two years. Examples are Massey-Ferguson and Chrysler.

Mechanisms

But these are essentially the negative reasons behind a changing trend among banks. The single most attractive positive reason for considering the consumer as never before lies in the new delivery mechanisms which are now available, or soon becoming so.

By this is meant the fact that it is no longer necessary to have vast and highly expensive branch networks in order to participate in retail banking. If anything these very outlets could well become a great burden on the traditional banks over the next two decades.

Instead, much of personal banking can now be done by electronic means, using Automated Teller Machines (ATMs). As evidence of this there is now a world-wide rush by banks, building societies and credit unions to buy ATMs, much to the satisfaction of suppliers like IBM, NCR and the like.

At a more ordinary level, banks are beginning to realise that the postal system has not yet really been exploited to its full potential in personal banking. Western Trust and Savings, the UK subsidiary of Royal Bank of Canada is now putting a lot of effort into this area, while Bank of Scotland, another increasingly innovative bank, is also looking closely at the postal system.

But this is only the start of a period of very considerable change, which may be expected to impact on every banking customer by the end of the decade, or early in the next one. The big revolution will come when people are able to pay for goods and services by electronic funds transfer at the point of sale. The customer will simply pass his POS card through an electronic reader and his bill will be paid instantaneously by a transfer from his account.

A less space age version of POS has been experimented with in France for some time and the banks concerned are now moving to a nationwide installation. In this system, the funds are not transferred at the point of sale but later in the evening over a telephone line. The system has been adapted so as to work like a cheque guarantee card with the result that customers know they will not be embarrassed for payments below a certain amount.

A multitude of POS experiments are currently underway around the world, notably in North America and Europe. In the UK Barclays Bank recently ran an experiment in Norwich, while the clearing banks in general are moving towards a competitive system which is capable of accepting the POS cards of all the banks.

In parts of Continental Europe the strong co-operation which exists within the European Payments Systems is likely to result in the Eurocheque cheque guarantee card becoming the uniform POS card in a number of countries. This has already happened in West Germany, where the banks have signed an agreement to use the card for a proposed nationwide POS system, having previously decided to use the Eurocheque card for a planned nationwide ATM system.

Perhaps the greatest innovation now being experimented with by banks in Europe and North America is something called "Home Banking." The idea is that people will be able to do all their routine banking business and bill-paying from home by using a push-button telephone, probably linked to a TV set. Leading U.S. retail banks like Citibank and Chemical see this as offering great possibilities in this decade, and are already well advanced with proposed systems. An experiment is also underway in Germany.

Travelling

Apart from delivering banking products to the consumer in his domestic environment, banks are also attracted by the possibilities arising from an increasingly affluent and travelling populace. This helps to explain the extraordinary developments in the travellers' cheque market of the past two years. Five years ago it would have been unthinkable for thousands of banks from all over Europe to come together to form Euro Travellers Cheque International, which is based on the operations of Thomas Cook, the Midland subsidiary. The intervention of what were then seen as fledgling credit card co-operatives—Visa and Interbank (now Mastercard)—to challenge the superiority of American Express cannot have been anticipated by many.

Thanks to the same institutions the world of retail banking is now linked as never before. Today almost all significant banking institutions, and an increasing number of smaller ones, are either Visa or Mastercard members. Each of the associations now possesses extensive data communication capabilities, which in turn may be used by any of the members to compete against others—in either domestic or foreign markets. The only rival is probably American Express, the near-bank which has over the years built up an exceptional market share in "Travel and Entertainment" cards and travellers cheques.

Its critics say it is now poised to take—or is at least capable of taking — deposits from affluent customers the world over, while allowing them access to their funds via the American Express card. There are already suggestions that Merrill Lynch is about to start deposit-taking in Europe, in effect offering its famous U.S. cash mangement account to customers outside the U.S.

These are just some of the unusual features which are likely to characterise personal banking at an increasing rate over the coming decade. They spell greatly increased competition among banks, and most of all from non-banks in the banking area.

It is by no means beyond the bounds of possibility that by the end of the 80s telephone companies will be in the banking business. With their electronic data communication capabilities there is no reason why they should not take deposits from customers and pay them a rate of interest. Similar opportunities exist for airlines and possibly nationwide retailers.

The message for the traditional branch bankers of the world is that change is inevitable. The sooner they adapt to the new world, and seize the opportunities afforded by electronic data communication systems the better will be their chances of at least retaining market share in the decades ahead.

CONTENTS

U.S. developments highlight invasion by non-banks

PERSONAL MARKETS

MICHAEL LAFFERTY

NOWHERE HAVE banks become more aware of competition from non-banks in the personal market than in the U.S. over the past two years. Over that short period the U.S. banking industry has seen Wall Street brokerage houses launch a series of money market funds which have by now attracted more than 10 per cent of all U.S. savings deposits. But the threat has not rested there. Some brokers, and notably Merrill Lynch, the largest, have offered their money market customers facilities such as credit cards and cheque books for access to the funds. By doing this Merrill demonstrated that it was running bank accounts and taking deposits—all but in name.

The extraordinary developments which have taken place in the past few months in the U.S. have their roots in a series of legislative restrictions on banks which prevent them paying more than a certain rate of interest on certain types of deposits, from charging above a certain rate on certain types of lending and from providing personal investment banking services. To cap it all the banks are not allowed to branch nationwide to collect deposits.

The effects of these restrictions were leading to a gradual build-up of a campaign for reform within the banking industry earlier this year but this has now taken on much greater pace because of what have become known as the "non-bank mergers."

These began little more than a month ago when Prudential Corporation announced that it was taking over Bache, one of the brokerage firms. But interest really grew when American Express, the organisation best known in banking circles for its travellers cheques and "T & E" cards, announced a plan to merge with Shearson Loeb Rhoades, another broker.

The mergers led to alarm among many banks, which were fearful of having to compete against the largely non-regulated financial conglomerates.

Some of the bigger banks have counter-attacked by proposing exotic instruments of their own, but so far with little success. One of the most novel came from Bank of California, which on May 6 announced a new account called Money Market Plus. This would pay a money market interest rate on a minimum balance set to open the account, which in turn could be accessed by cheques written in multiples of $1,000. BankCal contends that the new account is not subject to the interest rate ceiling set by Regulation Q because the funds would be deposited in BankCal's London branch. However, it was forced to suspend the plan after intervention by the Federal Reserve.

Participant

The American Express merger gave another participant in U.S. banking—not itself a bank but an organisation whose members are banks—an opportunity to show its hand. The organisation is Visa, the worldwide consumer payments concern which up to now has been identified with credit cards and travellers cheques.

Visa has proposed to its U.S. members that it should run a cash management account on their behalf which could be accessed by a proposed new Visa "T & E" card in a similar way to the Merrill Lynch product.

The Visa plan has a significance far greater than merely inside the U.S. The proposed new T & E card, for example, is intended not just for the U.S. market. Indeed it is likely to be launched worldwide within the next year. Again, if the Visa money market fund does get off the ground, it need not be limited to U.S. bank customers.

This line of thinking gives a conventional banker nightmares. The suggestion is that in the very near future—certainly before the end of this decade—it will be possible for personal financial services, including banking, to be carried into people's homes via TV and telephone lines. Moreover, it will be possible to offer these services on a worldwide basis via satellite transmission.

The most revolutionary aspect of all concerns control of this phenomenon. One argument is that since value is now represented by nothing more than an electronic impulse its movement across national borders cannot be controlled. Central bankers in some European countries have already started to consider the implications of all this.

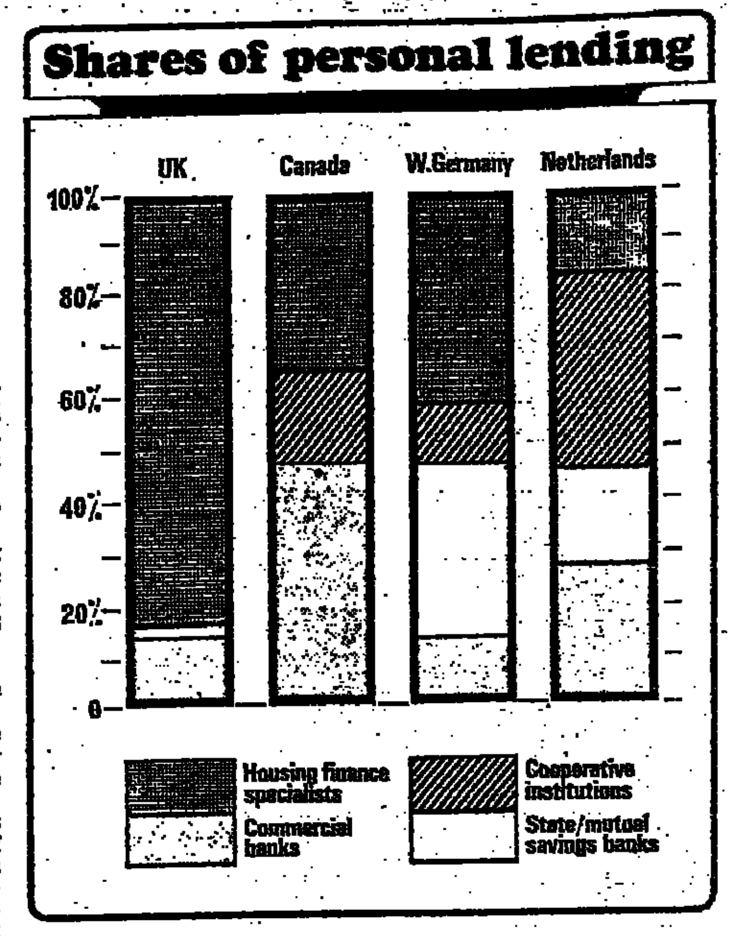
If the scenario is right the longer term outlook for existing delivery systems—as U.S. bankers call things like branches, automated teller machines, payment cards, etc.—is confused to say the least. The question certainly needs to be asked whether in the not too distant future there will be any need for the vast branch networks like, for example, those of the British clearing banks.

What is clear is that many big banks have not yet started to think about the challenges and opportunities afforded by electronic funds transfer systems. There is remarkable contrast between some of the major U.S. banks, where senior retail banking executives plan worldwide strategies for the personal market in the 1980s, and the British clearing banks, where there is as yet no noticeable division between retail and corporate business, and management responsibility is based on geographical limits.

But the banks do not have to look into the future to find competition in what they have long regarded as their markets. The competition is already here in the shape of institutions such as building societies in Britain, insurance companies elsewhere, credit unions in countries like Australia, and so forth.

Just as in the U.S. now, the banking industry is generally closely regulated, while the competition is relatively free.

Many British clearing bankers muse about the possibility of the building societies in Britain entering into money transmission business in addition to deposit taking. For the most part, they seem to conclude that there is little prospect of this happening. But if they look at countries like Australia, South Africa and the U.S. they will see that building societies there are already moving down the road of automated teller machines, plastic payment cards, current accounts—and more.



"Consumer savings are by far the largest source of savings in this country and in most other countries as well, and therefore represent a key funding source for any financial institution over time. It is our judgment that we can profitably tap that source by dealing directly with the consumer, in the more open competitive environment that is developing."

—*Citicorp 1980 Annual Report*

Leading groups spread their retail networks

INTERNATIONAL STRATEGIES

MICHAEL LAFFERTY

THE CULT and culture of international wholesale banking has been around for so long that the term international banking has come to be regarded as synonomous with only this area of banking activity.

But for several years many banks have been operating in the retail/consumer banking markets of several countries. Today some of the largest of the U.S. banks either have, or are planning international retail banking strategies—while similar moves are underway in some European banks.

But first it may be helpful to clarify a few definitions. Some leading British clearing bankers appear to regard retail banking as any services provided through the branch network, and consumer finance house business as something entirely different.

Yet these same bankers will agree that they are gradually tending to separate personal and business customers at the branch level, with the latter increasingly being catered for at larger corporate branches.

They will also talk about the good sense of combining the personal banking of the branches with the finance house operations. After all, the customer in both cases is the individual. It is in this latter all-embracing context that the leading banks of the world are increasingly coming to use the description, retail banking.

Customer

It takes in commercial banks, savings and co-operative banks, building societies and housing banks, postal giros and consumer finance houses. The common factor is the customer group.

Of all the big banks of the world with retail banking operations outside domestic markets none is better known than Citibank of New York. For several years now it has been organised with a worldwide consumer banking division.

It is controlled directly from head office by John Reed, and the various businesses—whether they be in the UK, Brazil or Hong Kong—are managed by retail bankers who report to him.

Citibank's pioneering philosophy is now being copied by other major U.S. banks which are paying more attention to the consumer worldwide.

For some time most of these U.S. banks have operated separate retail and wholesale business divisions in the U.S., while gradually picking up foreign operations which have then been managed under the jurisdiction of larger and older wholesale branches.

One of those banks which has come to question this approach is Bank of America. This bank, with 1,200 branches in California, is the largest retail bank in the United States.

B of A is currently involved in a major review of its international retail banking activities—which include operations in Europe, Italy, Germany, the UK, Africa, in Nigeria, the Far East in Hong Kong, and Latin America, including Argentina.

"Our strategy is likely to embrace the developed and under-developed world," Mr. Bruce Mitchell, head of planning, says. He concedes that the present organisation is an accident of history. "Our international expansion was in the Sixties and it was wholesale."

Marty Elenbaas, head of B of A's California division, thinks that the way ahead will involve some blend of culture from the wholesale side overseas, and retail orientation directed from San Francisco. "Our people who run Eurocurrency operations are not suited to handle retail," he said.

But Citibank and Bank of America are just two of the U.S. international retail banks. Others include Chase Manhattan, and Security Pacific, which is planning to start pilot operations in France and Germany over the next three years.

The ranks of such banks are expanding rapidly. Marine Midland Bank, for example, is beginning to consider international markets for the first time, and Chemical Bank is known to be working on highly ambitious international plans for the next few years.

Chemical has already spent some time studying the UK market, and has held discussions about possible joint ventures with a number of banks, including the Trustees Savings Banks group.

The North American picture is completed by Canada, where a national banking system has made possible the development of very large branch networks. Several of the big Canadian chartered banks have international retail businesses but the best known in Europe is Royal Bank of Canada.

Royal owns Western Trust & Savings, one of the new-style consumer banks, and has recently bought into Germany and Puerto Rico. However, Royal does not have a worldwide retail strategy, according to Mr. Rowland Frizee, president and chief executive officer.

In Europe, there are many banks which may correctly be described as international on the retail side. The largest is undoubtedly Barclays Bank of the UK, whose interests abroad include a successful retail branch network in France, finance house operations in Italy, a Spanish branch bank, one of South Africa's largest branch banks, and a host of other operations in many parts of the western world.

Expanded

Most significant of all are, of course, those retail businesses which Barclays has acquired and expanded in the U.S. over the past few years. The U.S. activity includes a nationwide finance house with substantial consumer business, as well as retail branch banks in both California and New York.

The picture is similar, but to differing extents, with the other big British banks. Lloyds owns retail banks in New Zealand, South America, Spain and California; Midland is about to acquire Crocker National of San Francisco, while the National Westminster group owns the National Bank of North America, a large New York-based retail bank.

The Hong Kong-based Hongkong and Shanghai Banking Corporation is an example of an international retail bank too.

Some of these involvements are accidents of history—such as Deutsche Bank's branches in South America—while others seem to have come about in a somewhat haphazard way. Whatever the reason there is much evidence that big banks are today paying more attention to the consumer market.

Having said this, there are notable differences in the markets that attract certain groups of banks. The UK market is a good example. It has probably attracted more interest from North American banks and finance houses than any other, yet there is relatively little interest in the UK from Continental European banks.

That is partly the result of long held views about retail banking being the preserve of domestic banks, allied to fears about possible culture clashes.

Plastic cards locked in a struggle for supremacy

PAYMENTS SYSTEMS

ALAN FRIEDMAN

A LARGE-SCALE BATTLE is now raging, although it has rarely been the subject of front page news. The battle, among key international payments systems groups, is intense and unprecedented in the normally sedate world of banking.

Among the combatants are the names of Visa, Mastercard, American Express and Eurocard. These are the children of international retail banking who have suddenly bypassed adolescence and reached adulthood ahead of schedule.

They are locked in a struggle for the hearts and minds of U.S. and European customers in the fields of credit cards, travellers cheques, "travel and entertainment" charge cards and more.

The consumers include hundreds of millions of cardholders worldwide and the amount of purchases made with the various instruments of consumer credit — not including travellers cheques — was well above $100bn last year.

Rapid technological developments have occurred within the past decade. Led by American marketing men and bankers, the idea of plastic money has been advanced and is now being joined by the idea of electronic money — known as electronic fund transfers.

Global payments

One of the most successful examples of this growth is found in the story of Visa, the global payments systems group which has made inroads in nearly every form of product now on the market. The name "Visa" was not in use around the world before 1977 but the group can trace its history back to 1958, when the California-based Bank of America introduced Bankamericard — an offshoot business which offered consumer credit through the medium of plastic.

Last year, Visa cards were used to make purchases worth $47.5bn worldwide. The group claims more than 90m cardholders, 3.1m merchant outlets and 100,000 offices which will provide cash.

Mr. Dee Hock, the president of Visa, has guided the group through innovations such as the Visa travellers cheque—linked in the UK with Barclays Bank—and the new Visa "premium" card, an upmarket vehicle in the travel and entertainment market.

One year after the launch of Visa travellers cheques, the group says its sales were $2.3bn in a 12-month period.

Visa makes the bold prediction that by 1985 it will have 40 per cent of the world market share in travellers cheques, a claim which some bankers are beginning to think within the realm of the possible.

But anything Visa can do, its arch competitor Mastercard says its can do better. Unfortunately, Mastercard has yet to prove this. Similar to Visa in the size of its membership (both serve around 12,000 banks), Mastercard is also an innovator in the field of new payment products. Like Visa, it also serves to co-ordinate, market and service its clients around the world.

Mastercard, however, has fallen behind in recent years. This is partly because of Visa's aggressive marketing stance, but also a function of management difficulties.

Change was promised, however, early last year, when Mr. Russell Hogg took over as president of Mastercard. His goals were to overtake Visa, introduce new products and sort out the group's links with European banks and payment systems organisations.

This last objective proved a tricky one, and despite recent agreement in principle with European groups, Mr. Hogg is still at work on a number of card and travellers cheque details which need resolution before a solid link with the Europeans can be forged.

Two months ago Mastercard launched a range of travellers cheques to supplement its array of credit card services. The move followed two years after it was first announced, having been a hostage to a lawsuit brought by New York's Citicorp. The new cheque is to be linked to Euro Travellers Cheque International in an association which could make the two groups a formidable force in retail banking.

But the struggle to secure this association points up the changing market and sometimes fierce competition among payment systems organisations. Until early March of this year, Mastercard did not have the reciprocal acceptance services and other arrangements it required in Europe to successfully manage its new cheques.

The Euro Travellers Cheque group (ETCI), a group of European banks which bought the Thomas Cook cheque business from Midland Bank for £14m, had made certain demands of Mastercard which brought about high drama in the retail banking world. Essentially, these involved a desire for an equal standing between the ETCT and Mastercard organisations.

After concessions on both sides, agreement in principle was announced on March 5 at an international retail banking conference in Monte Carlo. The Euro/Mastercard joint venture plan provides for the development of common services in travellers cheques and a joint cheque in future.

Mr. David McWilliam, ETCI's chief executive, said a jointly designed cheque with the emblems of Thomas Cook, ETCI and Mastercard would be developed within a year, provided both sides ratify the agreement.

"We will do this as soon as possible," he said. Mr. McWilliam has shuttled between Brussels, New York and London in recent weeks to complete the agreement, but acknowledges there is still much work to be done.

Once the agreement is finalised, the world market may be significantly rationalised. Visa and American Express will continue as major cheque issuers, as will Citicorp and Bank of America.

The Euro/Mastercard organisation will then have to prove its mettle in the growing worldwide cheque market.

But European payment systems include much beyond travellers cheques. In the late 1970s a colourful German banker helped to engineer the growth of a new Europe-wide system of payments. Dr. Eckart van Hooven of the Deutsche Bank has probably had more to do with payments systems than anyone else in Europe.

Plain cheque

Dr. van Hooven helped to father the Eurocheque, a plain cheque which can be written and cashed in 39 currencies. He also helped develop the Eurocard, an upmarket card similar to the American Express travel and entertainment card, linked to Mastercard.

Eurocard now has around 550,000 cardholders—tiny by the standards of Visa and Mastercard—but growing fast. By 1985 Eurocard hopes to have 2m members, still small, but quite reasonable considering the lack of a cultural tradition for plastic cards on the Continent.

The final key player in the high stakes rivalry among payments systems groups is American Express, the non-bank group known for its travel and entertainment cards and its travellers cheques.

The American Express card is designed as a cash substitute rather than a credit facility and unlike Visa and Mastercard, charges an admission fee. American Express has 12m cardholders of its basic "green" card and a much smaller number of "gold cardholders." The gold card is a special upmarket card which provides sizeable automatic overdraft facilities and large cash advances.

It is in the field of travellers cheques that American Express faces its most serious challenge. According to estimates recently unveiled by New York stockbrokers Purcell Graham, American Express has suffered a decline in the world market share to a level below 50 per cent.

On estimated sales of $15.5bn, this would give American Express around 45 per cent of the roughly $35bn world market. The reason for the decline is apparently the incursions made by Citicorp, Visa and others.

Mr. McWilliam, of ETCI, agrees with estimates of the American Express decline. "In our view, this is clear evidence of the impact of new participants in the marketplace," he says.

American Express denies any fall in its market share. Mr. Michael Lively, president of the travellers cheque division, said recently: "We don't reveal our world sales to anyone and we have no plans to so do. If there were any slip in our market share we would be surprised."

Nevertheless, American Express has been reaching out to make new deals and compensate for what many see as a challenge from the new Euro/Mastercard coalition and from Visa. The group has recently concluded new agreements with European—especially German—banks on the preferential selling of its travellers cheques.

It has also branched out by making a takeover bid for Shearson Loeb Rhoades, the second largest brokerage house in America.

Said one British banker of the American Express bid: "They've been wanting to diversify for some time and they've had some knocks. What they are now doing is applying a fresh logic and concentrating on the financial sector." This banker, involved in the travellers cheque business, believed the American Express diversification would be useful as the group comes under pressure in the fields of travellers cheques and cards.

New service

Within the last few days, however, American Express has taken new action in the field of travellers cheque by unveiling a joint venture with Lloyds Bank. The agreement calls for the two to form a new company to issue sterling cheques.

Meanwhile, Visa reacted to the news of the American Express Shearson bid by introducing its own new cash management service, available to banks and similar to a service which American Express will probably offer with Shearson.

Visa had already planned the service, linked to a new travel and entertainment card it will introduce, but hastened its decision once the American Express for Shearson was announced.

This chain of events was typical of the complex competition between the several big payment systems groups. Smaller groups—such as Diner's Club, soon to be acquired by Citicorp—are also involved in the charge card and credit card business.

The emergence of international payments systems organisations is clearly still in a nascent stage. New companies will be formed, old ones will be taken over and the technological revolution will undoubtedly change the rules before long.

In the U.S., technology has now been perfected which will provide home-operated two-way television banking. In France, Credit Agricole is making strides with a new point of sales terminals which could vanquish the need for cash even at a supermarket. The pattern is similar elsewhere in Europe.

A major international battle is certainly underway, but it has only just begun.

A push-button revolution for customers

AUTOMATION

ALAN FRIEDMAN

IT IS ALREADY a truism that the development of new electronic technologies is revolutionising the world of banking, but recent growth has stunned even the most seasoned bankers.

Newly developed machines will soon permit everything from home banking on a specially wired television to the purchase of grapefruit and cereal in a supermarket without cash or cheques.

These new point of sales (POS) terminals have grown up very recently and are not yet in broad use anywhere. But Credit Agricole, the French group of rural banks, is now leading the world in the field of electronic banking by installing some 30,000 terminals in stores and hypermarkets throughout France.

The machines allow customers to carry their bundle of groceries up to the checkout counter, slip their card—which looks like a cheque card—into a reader machine and then tap in their personal identification number.

This operation, which is essentially an electronic signature, triggers the printing of a sales receipt. The average transaction time is just over a minute, significantly less than the normal time it takes to write and cash a cheque.

Credit Agricole hopes to install its machines during the next five years, at which time it is likely that other countries will also begin large scale POS experiments.

The French project follows from an experiment conducted by Credit Agricole last year at the Euromarche hypermarket in Limoges. This made use of NCR equipment and was seen as highly successful.

In Britain, a number of banks have been considering POS banking, but so far there has been no agreement as to whether the system should allow for competition or be uniform.

Apart from POS banking, the other major growth area in automation is in the rapid spread of cash dispenser machines. The U.S. leads the world in this business, with an estimated 10,000 or more machines installed.

The generic name for these machines is the automated teller machine (ATM). But different banks have developed their own systems such as Lloyds Bank's "Cashpoint" or National Westminster's "Servicetill" in the UK.

Network

In 1977 Citicorp—which trades in the New York area as Citibank—had only 20 ATMs in place. Since the 1970s the bank has invested around $100m in ATMs and now boasts a network of 470 machines in the New York area.

The Citibank machines are operated by a "Citicard" — a plastic card which also serves as a cheque authorisation card. Some of the ATMs are located in bank vestibules, but others are beginning to appear in shopping centre kiosks.

Mr. Richard Kovacevich, a senior vice-president of Citicorp, said the money invested in the ATMs was being returned through customer loyalty and increased deposits. It was not a loss-maker insofar as it provided services to customers and also brought new ones to the bank.

A typical Citicard Banking Centre, said Mr. Kovacevich, has two machines rather than one. This was designed to ensure that customers would always be able to use the service.

A customer can enter the door of a bank outside normal banking hours by inserting a Citicard into the door. The ATMs are in a vestibule, inside the bank—but sealed off from the main area.

The Citicorp ATMs provide an extraordinary array of services which far outstrip the standard four or five functions offered in the UK. Whereas a National Westminster ATM enables a customer to obtain up to £50 in cash, request a statement or a cheque book in the post and find out a current account balance during certain hours, the Citibank machines offer far more.

A Citibank ATM dispenses cash from one of up to five separate accounts (chequing, savings, loans, etc.). The ATM also takes deposits, transfers money among five different accounts, provides balance information on the accounts, and may even provide travellers cheques.

Cashed

In addition, Citibank ATMs also tell the customer the amount of the last cheque which was cashed and even how much interest was earned in a particular account during the past month or year.

This impressive set of electronic banking services is undoubtedly the shape of things to come, and it appears to be popular with customers. Mr. Kovacevich estimated that customers use Citicorp's ATMs for around 55m transactions a year. He said about $1.2bn in cash was dispensed last year through the ATMs—or about $30 for every second of every day.

In the UK it seems unlikely that this number of transactions will be made in the near future. But customers clearly like the new ATMs and senior general managers at the four clearers in London all confirm they have plans to step up the ATM network in Britain.

On the Continent there are efforts to develop a common European cash dispenser system, but this could be difficult to finalise for some time. German banks, however, have agreed to take a common approach using the Eurocheque card to activate ATMs.

But POS banking and the development of ATM networks around the world represent only the tip of the iceberg.

Mr. Dee Hock, the president of Visa, told delegates attending a recent banking conference in Monte Carlo that cash was simply a form of "alphanumeric data."

The transmission of electronic impulses, he said, would change the nature of international banking.

This change is already taking place.

WORLD BANKING XXIV

The next five years – Bankers' views

FORECASTS OF the medium-term are are notoriously hard to bring into sharp focus. The short-term is a bit easier. Even in the complex world of banking, a short-term view can be fairly confidently extrapolated from the conditions and events which have gone to make up the present scene: historically high interest rates, with associated pressure on cash-management; industry nursing and borrowing itself out of recession; financial crises in certain lesser developed and Communist bloc countries; new though radically different governments in the U.S. and France; established but struggling regimes in the UK and West Germany.

The longer view encourages a more philosophical tone. Secular trends can generally be assimilated into a platitudinously broad outlook, while specific predictions need only be ventured under the comforting assumption that—over a ten- to fifteen-year span—all forecasts are dead letters anyway.

In asking a group of bankers—as diverse as they were prominent—to look into the middle distance, Robert Cottrell and Jeremy Stone of the Financial Times set them the most testing problem. "What," they asked, "are the main developments which you expect to take place in your field over the next five years?"

The answers (given below) were illuminating and varied. If there is a common thread, it is a shared expectation of evolutionary rather than revolutionary changes over the next few years: in global terms, for tighter and more complex links between national economies, associated with developments in the cash-management technology of the banking system. And with Poland's external debt negotiations fresh in the mind, the problem of rating national credit is a recurrent theme.

Jacques Calvet

President of Banque Nationale de Paris

IF ONE wants to assess the development of banking business over the next five years, three main factors should be taken into consideration.

First, the rate of economic growth in the Western world will most probably slow down. Second, the rate of inflation will remain high but at different levels in different countries. Third, the connections between national economies will become closer, especially in Europe, and will have consequences not only for each country but also for international trade all over the world and for the international financial markets.

As a result the banking community will face more and more difficult conditions within the national markets and increasing competition in the international field despite rising risks.

It seems therefore that banks, especially the largest ones already engaged in a wide diversification of activities—directly or through subsidiaries—should concentrate their efforts on offering their customers more new products and services, preferably in the financial field, such as cash management, leasing, factoring, mutual funds, insurance, portfolio management and generally all services to private customers.

To achieve those targets banks should increase their productivity by all possible means. To mention just a few of these, they should develop as much as they can the use of new systems such as credit or banking cards, automatic tellers and so forth, relying on the tremendous and continuous technological progress in this field.

Walter B. Wriston

Chairman of Citicorp and Citibank, New York

TECHNOLOGY HAS already combined with finance in such a way as to make obsolete many of our old ideas about compartmentalised national financial markets. The principal development of the next five years is likely to be a continuation, or acceleration, of what might be described as the new technology of money.

Satellites have made communication costs almost insensitive to distance. There has been a steady elimination of economic and technical barriers to the instantaneous exchange of both information and financial assets on the world scene, making such developments as the Eurocurrency markets probably the most effective trading mechanisms the world has yet seen.

Banks have grown into a global, interconnected financial network to meet the needs of a global market-place and although attempts will undoubtedly be made to turn back the clock, it cannot be done.

We will continue to move towards low cost, instantaneous international financial transactions with beneficent results still inadequately perceived or appreciated.

Wilfried Guth

Member of the Board of Managing Directors, Deutsche Bank

CAPITAL ADEQUACY will be a key question. Optimal allocation of limited resources, that is establishing the "right" priorities, necessitates a re-examination of all segments of business with regard to profitability. This will not, however, result in a departure from the concept of universal banking.

Modern technology will lead to significant changes, demanding solutions to meet customer requirements in a competitive environment. It will be crucial in this context to keep costs under close control.

Even more than before, we must learn to live not only with high interest rates but also considerable fluctuations in rate levels. This requires increased attention to funding and the interest fluctuation risk on the liability side of balance sheets.

In the international field, continuing external payments imbalances and associated massive financing needs of some emerging industrial nations in particular will require large-scale credit—as in past years. Inevitably this involves additional risks, enhancing the importance of an adequate capital base and sufficient reserves. In this context an effective co-ordination and "division of labour" between the banks, the International Monetary Fund and official development institutions must be achieved.

Financing of major projects, particularly in the energy sector, should play a very significant role, challenging both the imagination and the funding power of international banks as well as their expertise in assessing the related risks.

The international issuing business will more than ever demand flexibility and creativity to satisfy the need of investors and borrowers in an environment of unpredictable and rapidly changing markets. In line with the prevailing multi-currency reserve system, international bond issues should in future be denominated in all strong currencies as well as in SDRs and possibly ECUs.

All these tasks require bankers with ever increasing levels of qualification. Training and motivation of bank personnel and management recruits are therefore of key strategic importance.

Christopher Reeves

Group Chief Executive of London merchant bank Morgan Grenfell

INTERNATIONAL capital is already moving about the world very much more freely than five years ago, and over the next five years I would expect to see an acceleration in this trend. The extreme volatility of both interest and exchange rates will extend the role of the corporate treasurer and his banking advisers while at the same time long-term funds are likely to become more actively traded, across currency frontiers, than in the past. Moreover, the growing capital intensity of major construction and development projects around the world will further enhance the importance of London as an international financial centre.

Once our own capital market is no longer dominated by the Government's funding requirements one might expect to see a reopening of the debenture market, although the attractions of sterling borrowing for foreign governments are likely to continue. If the corporate debt market is to re-open it will therefore be against a background of significantly higher yields than when it closed in the early seventies.

M. M. Abushadi

Chairman of the French-based consortium bank Union de Banques Arabes et Francaises (UBAF)

EFFORTS MADE in the past 20 years to bridge the gap between rich and poor countries have been totally inadequate. A direct consequence has been the dramatic deterioration in the debt structure of the Third World. Between the end of 1970 to 1980, Third World debt skyrocketed from $64bn to over $400bn.

The next 10 years may be even more traumatic. The interdependence of economies of the world at large will necessitate increasing financial assistance to the Third World. However, the appetite of commercial banks to continue to lend at the present pace it drastically reduced in view of the maximum exposure limits already reached.

To cope with this problem industrial countries will have to extend their export credits at concessionary terms and international lending agencies such as the World Bank and the International Monetary Fund should expand their lending scope by using some of their resources to support guarantees or insurance for private lenders. With such a backing, commercial banks' lending could be increased significantly. Bringing these international agencies and banks into closer relationship is certainly a vital development which the banking community will hope to witness in the next few years.

Timothy Bevan

Chairman of Britain's Barclays Bank Group

In the UK the essential task is for the bank to continue to develop its savings and loan services for personal customers and to attract those that are unbanked, probably by more convenient automated facilities. The bank's priorities in serving companies will be to help them survive the present recession and finance their needs as business expands.

Internationally there will be increased competition in the corporate market. Prospects for worthwhile representation in areas where we are not at present located will he limited but we intend that our banking operations will be strengthened throughout the world, particularly in North America, Europe and the Pacific Basin.

John H. Gutfreund

Managing Partner of New York's Salomon Brothers

IF WE combine the shortened time horizons in American finance with the imponderables of a fundamental change in national leadership philosophy, of the impact of deregulation and of violent inflation and volatile securities prices, then it becomes clear that prognostication with any degree of certitude for the U.S., let alone the world, is most difficult.

We would indeed be fortunate if the possibilities were realised that the world's money and capital markets would become even more fully integrated over the next several years, further improving the mobility of capital internationally, and if the world's savings rate were to increase materially. If these were to be accompanied by a lessening of world inflation rates and a return to greater stability in currency and securities values, then so much could be accomplished. Huge projects await our attention.

Consolidations

In the U.S. we are in a period of consolidation of financial institutions. The acquisition of investment banks by financial organisations other than commercial banks has already commenced. These consolidations make great sense in an era of rising costs where there are duplicate values and product lines that may well serve the same eventual market-place. But, at the same time we can expect that special purpose investment banking firms which are risk-oriented — by this I mean trading firms — and regional distributors of securities will continue on their own autonomous way.

The picture, generally, is one of continuing consolidation because of the sizeable capital requirements which are necessary to manage large efficient operations, and this includes the burgeoning mortgage market as well.

The present inability of thrift institutions to compete effectively for savings may require further government incursions to protect the public's assets and, eventually, the structure of these institutions. The future of these institutions will depend mainly on the financial possibilities inherent in their franchises.

The opportunities in the next few years for which are well disciplined and carefully managed financial intermediaries seem to us to be great. Certainly we may experience further institutional dislocations, but it is in circumstances such as these that progress is made and new, stronger financial institutions emerge.

Countries holding contrasting views on marketing payment cards

COMPETITION OR CO-OPERATION

MICHAEL LAFFERTY

A GREAT DEBATE is going on in retail banking around the world as to whether there should be competition in payment systems.

On the one hand, the Anglo-Saxon view is that competition is essential in areas such as plastic payment cards and automated teller machines (ATMs).

One the other, German and Dutch bankers argue that the banks and the public are better served if there is co-operation in these matters.

Some degree of co-operation is inevitable in payment systems, so that banks can handle and recognise each others' products. Thus cheques are designed in a similar way.

A more telling point is whether a particular country, say the UK, would be better off if all the banks agreed to operate the same credit card, as has happened with Bankcard in Australia.

In Germany, too, all the banks have agreed to issue the Eurocard as their sole plastic payment card for the present time, and the same is more or less the case in a group of other Northern European countries such as the Netherlands and Belgium.

It is in the area of highly expensive retail banking equipment that the arguments in favour of co-operation among banks in payment systems are at their strongest.

The latter part of the 1980s will almost certainly see the installation of nationwide point-of-sale (POS) terminals linking retail stores and other outlets to bank branches. This will involve major expenditures by banks.

Essential

It is not surprising, therefore, that banks in many countries have taken the view that is an area where co-operation is essential. The British banks seemed to be coming to that conclusion after a POS feasibility study in 1979 called for a major central computer installation, linking up with bank branches and retail outlets.

More recently, however, the chief executives of the clearers have been strongly swayed by the arguments for what is now being called a segmented system. Instead of having a large main-frame computer installation linked to other computers in the banks, the idea is to have a series of independent and smaller computers talking to each other. In clearing bank circles the first option is now known as the Dinasour, while the second is termed the Poodle plan.

In Germany, on the other hand, the banks are still walking the co-operative path. They have recently signed an agreement to use the uniform Eurocheque card (a cheque guarantee card) as the transaction card for Germany's eventual POS system, having previously agreed that the same card would be used in ATMs throughout the country.

Following on from these initial principles, the German banking groups are now about to begin discussions with equipment suppliers and retailers. "This is very expensive equipment. We must see who gains benefit so that we can decide who carries part of the costs," commented a banker involved in the plan recently.

In the field of automated teller machines the German banks are working towards a nationwide pool, in order to avoid what most seem to see as wasteful duplication.

Thus, a customer of Deutsche Bank will be able to use his ATM card — the Eurocheque card — in the ATM of the Bremen Sparkasse, or that of Commerzbank. The proposal has its attractions.

It contrasts, however, with the recent direction of British retail banking. For many years the clearing and other banks have operated an inter-bank agreement whereby each others' customers could use the nationwide range of branches to pay in credits, and make cash withdrawals.

That agreement was registered under restrictive practices legislation some years ago but it has now lapsed following informal advice from the Office of Fair Trading that it is, indeed, restrictive.

Agreements

The outcome has been that the clearers have moved to a series of bilateral agreements with each other. One consequence of this is that bank customers are now having to pay charges when they use branches other than those of their own bank.

The question of competition in retail banking, and the extent to which it should go, is a fascinating one. Bankers have many different views, though in the main these tend to reflect local conditions.

In Britain, for example, it is clear that competition among the banks in the personal market has been restricted to a number of specific customer segments, such as university graduates.

More than 40 per cent of UK adults still lack a bank current account, and since there is no way that the banks could handle a sudden rush of another 12m customers it would seem that competition does not yet exist to any significant extent in the part of the population who are weekly paid.

Control over payment system, in this case called the money transmission system, can bring the banks of a country certain obvious advantages. In Britain that system is controlled by the clearing banks, all of who offer personal customers really only one form of transaction account —the chequing/current account.

The terms attached to that account do not yet vary significantly among the banks, and in particular none pay interest on current account surplus balances, beyond a nominal allowance against bank charges.

This system has brought the clearers very large profits in recent years, to the extent that the Big Four have been propelled to the top of the world banking league table, both in terms of net income and shareholders' funds.

On the face of it, Britain is a country where there is an exceptional degree of concentration in retail banking. By this is meant the fact that Britain still lacks anything with the strength of the Sparkassen, which have the dominant market share in Germany, or France's Credits Agricoles, and so on. The situation may now be changing, as the Trustee Savings Banks move increasingly into the personal market.

The fact that Germany or France has many times more participants in the retail banking market does not mean that all of these institutions are competing strongly with each other.

There is a long-standing tradition in savings and co-operative banking which says that competition is something which applies only against the commercial banks.

Cost may outweigh convenience

ELECTRONIC FUND TRANSFERS

ALAN FRIEDMAN

"IT IS quite clear that there is no evidence of a trend toward a cashless or chequeless society." These are the words of Mr. Charles Read, director of the Inter-Bank Research Organisation (IBRO) in London.

Mr. Read is convinced that whatever inroads may be made by electronic fund transfer systems, the people of Britain are not about to abandon the basic, well-known and widely used payments method called "cash." Mr. Read and his staff at IBRO have been able to garner a great number of statistics which demonstrate this view.

Their analysis, nevertheless, runs counter to the claims by Visa, Mastercard and other major international payments systems groups which suggest that the world is shifting decisively to new plastic and electronic payment methods.

Advocate

Mr. Joao Ribeiro da Fonseca, Visa's manager for Europe and the Middle East, is an ardent advocate of electronic banking. He disagrees with those who see cash as the dominant payments method and reckons on change in the near future.

"There is evidence that where payment cards develop their growth rate quickly outstrips that of cheques," says Mr. da Fonseca. "This," he claims, "is evidence of a change in society."

Visa and other brands of plastic cards have grown very rapidly in recent years, but the IBRO says this is simply because they started from a low base.

According to Mr. Peter Hirsch, senior consultant at IBRO, over 90 per cent of all payments in Britain are still made in cash and over half the working force are paid weekly in cash.

Writing in a recent issue of the Magazine Futures, Mr. Hirsch explained that even for those in the UK who have bank accounts, the majority of daily payments (including items such as newspapers, cigarettes and household groceries) are almost inevitably made in cash. With non-cash payments, cheques are by far the most prevalent mechanism.

This assertion was backed up by Mr. Read. New methods of payments were always coming along, he said, but cheque volume continued to increase. "There is no clear and obvious way for electronic fund transfers to replace cash and cheques," he maintained.

Mr. Read backs this up with IBRO figures showing that from 1971 to 1979 cash accounted for more than 95 per cent of the total number of payments made. The value of notes in circulation per head of the population grew from £65 in 1971 to £160 in 1979.

Although the recent introduction of a £50 note has not met with universal success, it is evidence of the Government's continuing faith in the cash medium. Inflation has clearly brought about some of the cash growth and by late 1979 the £5 note had replaced the £1 as the most popular note.

Of the non-cash payments by households, credit card transactions grew at the fastest rate. IBRO statistics show a tenfold increase beween 1971 and 1979. But credit cards still represented less than one household transaction in fifteen, around 2 to 3 per cent of consumer expenditure in the UK.

The picture is different in the U.S., home of the credit card and advanced payments technology. But matters became so severe in the States that even Mr. Russell Hogg, president of Mastercard, went on national television to advise caution in the use of credit cards. This campaign, in the spring and summer of 1980, followed calls by President Carter to exercise caution in the use of plastic credit.

In Europe, and particularly in West Germany, bankers are still less inclined toward plastic payments systems. Dr. Eckart van Hooven, the Deutsche Bank executive who helped father an array of European systems, has long maintained that bank cheques are the most sensible way to control consumer credit.

Contention

The perceived "American invasion" of Europe is a bone of major contention on the Continent and has even led to some conflicts between certain U.S. and European bankers on the subject of plastic credit.

In the UK, payments run the gamut from cash to cheques to giro transfers and more. But anyone entering an expensive restaurant in Soho will probably tap the wallet in his/her trousers to make sure not just of cash but of that plastic card as well.

There can be little doubt that electronic funds transfers will become more and more common as technology grows and is applied in the UK and elsewhere. But Mr. Read of IBRO believes that the public will baulk when confronted with the cost of new technology.

Will plastic cards and new electronic systems spread rapidly in Britain? Mr Reed says no. The credit card companies say yes. In the end it will be up to the consumers, for it is they who must decide whether the convenience of new credit systems are worth paying extra for.

NatWest Bank's Servicetills provide a 24-hour facility dispensing cash to customers up to a previously arranged limit. Requests for statements, cheque books and balances are also processed

INTERNATIONAL CENTRES

This page and the following three review the main centres and their role in keeping the wheels of the money business turning smoothly.

Pull of America's economic might

NEW YORK

DAVID LASCELLES

Downtown Manhattan—New York's financial district

NEW YORK occupies a slightly anomalous place in the league of world financial centres. It is unquestionably huge, vital and vigorous but it owes its standing primarily to the fact that it is the financial centre of the largest economy in the world—not to its international reach.

This means that while dozens of international banks do business there. the focus is primarily domestic. With the best will in the world New York could never compete with London as a foreign exchange or international finance centre because its hours of business coincide only with the afternoon in Europe, and not at all with the Far East's.

Yet all is not well with New York's domestic standing either. There is nagging discontent among the city's banks over the rate of taxation, regulation of interest rates, and internationally more familiar problems like the soaring cost of office space.

Many of these issues are fast reaching the point where the authorities are having to respond in some way or risk seeing banks move their business out of town — which some have already done.

Last year's row over the regulation of interest rates by New York State's usury laws was a good example of how the banks can flex their muscles to good advantage.

For years, the state imposed limits on the amount of interest banks could charge on loans to consumers (principally credit cards, auto and personal loans and mortgages). Ceilings varied according to loan type and term, but were generally in the low teens.

Last year, when U.S. interest rates soared to the high teens, banks in the consumer loan business were badly squeezed, and many forms of consumer finance began to dry up.

Citibank, New York's largest bank, which was especially badly hit, threatened to move its credit card operations to the unlikely destination of South Dakota—which has no usury laws—unless New York amended its laws.

The state legislature dragged its feet, and eventually did raise the usury limits to more realistic levels, but by then Citibank had gone ahead with its plan, with the loss of several hundred jobs on Long Island.

The upshot, though, is that New York banks in the consumer lending business—which include several foreign banks like Barclays and Natwest—can now hope to make a decent profit.

The taxation issue is more sticky. A combination of local taxes and levies means that commercial banks must currently pay a 26 per cent local tax rate, before federal tax, the highest rate in the U.S.—some states charge no corporation tax at all.

Sensitive

After the Citibank incident, the state government is very much more sensitive to restiveness in the banking industry. However, given the sore strains on New York finances, a large tax cut may not be feasible.

Adding pressure to that is the enactment by the state of Delaware only 100 miles to the south of a highly favourable banking law with generously low tax rates and minimal regulatory requirements.

The law was in fact largely formulated by two New York banks, Chase Manhattan and Morgan Guaranty who pledged to establish part of their operations in Delaware if their bill was passed.

It seems unlikely that New York banks will now troop en masse down to Delaware, but they have made their point.

The international banking presence continues to grow. At the latest count nearly 300 overseas banks had operations of some kind in New York. However it is also increasingly the case that foreign banks view New York only as a starting point for networks which extend to Chicago, California, Atlanta, Houston and Miami.

Some banks have bypassed New York altogether, notably Midland Bank of the UK, which has gone straight to California. To some extent this is because the New York market looks saturated compared to the brighter opportunities offered by states further south and west. New York is no longer the hospitable state it once was, especially when it comes to foreign takeovers.

The present banking superintendent, Ms Muriel Siebert, has made no secret of her concern about the foreign banking invasion, and fought Hong Kong and Shanghai Bank's acquisition of Marine Midland, the large upstate New York bank. The deal only went through when Marine Midland removed itself from her jurisdiction by seeking a federal charter.

A development from which New York stands to gain is the decision by the Federal Reserve Board to allow the establishment of International Banking Facilities (IBF's) which will effectively bring part offshore banking to the U.S.

That will not involve, as many people think, the creation of an offshore "zone" like a bonded warehouse for banking because an IBF will be no more than a book-keeping device to separate offshore transactions from the rest of a bank's business.

However, insofar as this new form of banking will have a geographic location, it is bound to be New York, partly because that is where most of the business is done, partly because the state of New York has been swiftest to set up the necessary legislative framework and grant IBF's exemption from local tax.

IBF's will be free from the Federal Reserve's interest rate limitations and reserve requirements on deposits. In practice it means that U.S. banks will be able to repatriate "shell" operations they set up, in places like Nassau, to escape these regulations.

The employment gains for New York will not therefore be all that great, and the improvement for banks will be measured more in terms of added convenience.

The IBF issue has, however, aggravated long - standing rivalries between New York and other U.S. financial centres jealous of its dominance. Big banks in California and Chicago —which federal law prevents establishing full-blown operations outside their home states —fear they will be prevented from participating fully in the new IBF market.

Capitalised

For example, Bank of America, the giant California bank with assets of $115bn. may only operate in New York through a subsidiary which it has capitalised to the tune of $316m.

As a place to do business, New York could hardly be described as ideal, though its people make up with their alertness and enthusiasm for a lot of the city's failings, the overcrowding, and the poor municipal services and transport.

Telecommunications are good but there can be surprising lapses. The Wall Street area is not wired-up for international telephone dialling and overseas calls have to go through an operator.

Soaring rents have also greatly added to the cost of opening a Manhattan office. Prime space now costs $60 a sq ft, three times what it cost in the mid-1970s—though to Europeans this may still seem relatively cheap.

Same-day settlement on the way

NEW YORK CLEARING HOUSE

DAVID LASCELLES

ANYONE WHO DEALS in large international dollar transactions should know by now that October 1 is a red letter day.

That is when the New York Clearing House Interbank Payment System (CHIPS) goes over to same-day settlement.

The change will eliminate a mere 16 hours from the time in which dollar transactions are currently settled, but it has major implications for banks, international businesses and the foreign exchange markets.

CHIPS was established 11 years ago and currently clears about $160bn a day, though when busy the volume can be double this. It has about 1,000 participating banks, but most of these clear their funds via the 14 major "money centre" banks through correspondent arrangements.

Channel

U.S. banks channel most of their international banking transactions through CHIPS, which tots them up at the end of the day and informs each bank how much it owes — to or is owed by — other banks.

Banks get this information by 6 pm. They are not required to settle with each other until 10 am the next day — or Monday if it is a Friday. This left a huge overnight "float" in the system from which many banks profited. But it also left the system vulnerable to overnight developments, like a bank failure, which could prevent settlement occurring the next morning.

Partly because of these dangers, but also recognising that it is more logical and technically feasible to close the books at the end of the day — other countries do it, after all —international banks and the Federal Reserve have been pressing CHIPS to go over to same-day settlement for some time.

Work on the change began in 1977, but is only being implemented this year, an indication of the enormity of the task.

From October 1, CHIPS will close at 4.30 pm, tot up and report bank positions by 6 pm. Then settlement will take place. The overnight or week-end float will thus be eliminated, and the international dollar banking system will begin each day afresh.

The change has implications for interest rates both during the transition and in the longer run because it means that funds will become available immediately instead of a day later. Already, deposits maturing after October 1 have a fractionally smaller yield to compensate for the day lost, and the closer the world moves to October 1, the higher this differential will become.

After October 1, it will disappear of course because deposit and withdrawal will both be made in same day funds. There will be a more lasting change in the foreign exchange markets where spot transactions, which are usually settled in three days, will be settled in two.

There are fears that the change could inject a new element of volatility into the interbank money market — fed funds —as banks scramble to balance their books at the end of the day.

However, Mr. Samuel Preston, vice-president at Chase Manhattan, the largest participant in CHIPS, believes these fears are exaggerated. "I think it will make people act more prudently," he said.

Other bankers say the new system will be safer because it will reduce the temptation among banks to hold larger debit positions than they really should.

Multinational companies dealing in dollars must be aware of the change because it will directly affect their transactions, though banks like Chase have spent the last year or two preparing their clients for it.

Banks have warned that apart from the greater speed required, dollar buyers and sellers will have to be extra accurate because there will be less chance to correct errors.

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Powerful attraction remains despite inconveniences

LONDON

BARRY RILEY

THE CITY is expensive and crowded, and it can take a long time to get the telephone installed. Yet London retains a powerful lure for the international banking community.

According to the annual survey conducted by the magazine, *The Banker*, the number of foreign banks directly represented in London through a branch, subsidiary or representative office topped the 350 mark in 1980. This gave an increase of 25 compared with the previous year.

The total does not include a further 50 or so banks which are indirectly represented through shareholdings in a joint-venture bank or deposit-taking institution registered in the UK. Despite a hiccup in the mid-1970s, when the banking crisis led to a major reassessment by many banks within the international financial community, the long-term trend in representation remains firmly upwards.

Doubled

The historical pattern revealed by *The Banker's* survey is that growth in the number of foreign banks directly represented in London was extremely rapid in the early part of the 1970s. Between 1969 and 1974 the number almost doubled to 262. There was then a pause, but in 1977 newcomers began arriving again in some numbers, so that another 90 have set up shop in the past four years or so.

As a result of the increase in direct representation, however, there has been less need for the joint venture or consortium-type arrangements which became popular 10 years or so ago as a means by which foreign banks could relatively cheaply gain a slice of the international action available in London.

There is now hardly any role for the broadly based consortium bank, and the future in this sector is likely to belong only to the various specialised consortium banks, notably those with a geographical orientation — for example, towards Latin America.

A classic example of the redundancy of the non-specialised consortium bank has been provided by the decision by six major banks, including Chase Manhattan, National Westminster and Westdeusche Landesbank, to end the partnership they formed in order to set up one of the best-known consortium operations, Orion Bank.

It was announced last month that Royal Bank of Canada would buy out the other five partners and run Orion as its wholly-owned London subsidiary. Such a deal has been on the cards for several years; but Royal Bank did not feel able to take such a big step until it had obtained direct experience of the London market through a small merchant banking subsidiary which it set up in 1979. This will now be merged with Orion.

The basic problem with Orion was that its ambitious management developed the bank in ways that led it into direct conflict with its parent. The departure of its chairman, Mr. David Montagu, some 18 months ago did not resolve the position.

But the directly represented banks, too, have found conditions far from easy in London for much of the past year. The low level of spreads on international business is a constant problem but the high level of the sterling exchange rate has posed new difficulties.

International banks in London naturally hold the bulk of their assets and liabilities in foreign currency denominations—especially in dollars. But their costs—notably rent, rates, telephone and telex bills—and staff expenses are almost entirely in sterling.

In a period when sterling has sometimes been pushing towards the $2.40 mark it has been painful to pay costs in sterling but receive income in dollars. With the dollar recently recovering to a level below $2.10 to the pound this squeeze has eased substantially in recent weeks. But there has been little corresponding relief in respect of business transacted in European currencies like the D-Mark, against which sterling has remained comparatively firm.

Staff costs

The sterling problem has been compounded by the rapid increase in staff costs in London. The main determining factor in staff costs is the level of salaries paid by the London clearing banks. The latter have been indulging in something of a pay bonanza over the past couple of years on the strength of the big profits earned during a period of exceptionally high domestic interest rates.

Salary scales have risen by more than 50 per cent inside two years, a trend which foreign banks have been obliged to follow, at least partially. However, the job market has more recently become easier, and the clearing banks have imposed a much smaller settlement for the current year. Moreover, despite the recent rises staff costs are still often favourable compared with other European centres like Frankfurt, Brussels or Zurich, and are also lower than in New York.

Rents are traditionally high in the City and large premiums have to be paid for banking halls in close proximity to the Bank of England. However, in real terms rents have never returned to the kind of extreme levels seen before the secondary banking crisis of 1974.

As for the telephone problem, there are plenty of stories of newcomers being told they will have to wait six months to a year before an adequate telephone service can be installed. The delays appear to be easing somewhat, however, and once in working order communications in London are as efficient as anywhere.

Whatever the operational difficulties London is simply the place to be for banks with international aspirations. It is the key centre for the Euromarkets in syndicated credits and bonds, has extensive resources for currency dealing and is one of the big centres of bullion trading.

The English language is an obvious attraction for U.S. bankers, and geographically London is well placed to allow easy access to the other main European centres, while the transatlantic air service out of Heathrow is second to none.

Over the years, moreover, the Bank of England has adopted a very positive approach to the development of London as an international financial centre. Although sterling exchange controls were in force up to 1979, "offshore" type activities flourished nevertheless, and now all restrictions have gone.

The ending of the banking "corset" last year also removed many of the constraints upon the sterling activities of banks, so that some of them have taken the potential of the domestic banking market rather more seriously.

The reasonably enthusiastic welcome available in London contrasts with the uncertainties of, say, Paris where after the socialist victory in the presidential election the domestic banking system now faces the threat of wholesale nationalisation.

All the same, the recent changes in the approach of the Bank of England have occasionally caused some ruffling of the feathers among foreign banks. One or two notable contenders, like the Bank of Credit and Commerce International, have been left off the newly compiled list of fully recognised banks. Attempts by the Japanese securities houses, to get banking status have been met by arguments about the need for reciprocity of approach.

Unexpected

Banks operating in London may find that they have to fit in with rather unexpected local requirements. An example of this is the inflation accounting requirement imposed by the Accounting Standards Committee; this, however, is non-statutory and has been ignored by many consortium banks. They have argued that to be forced to show losses after inflation adjustments would be damaging to their international reputations, given that rivals based outside the UK do not have to bare their souls in the same way.

Besides all this, the Bank of England is still wary about attempts by foreign banks to move into UK domestic banking. The bid by Hongkong and Shanghai Banking Corporation for the Royal Bank of Scotland Group has received a very cool reception from the Bank. It has now gone to the Monopolies Commission, along with the officially welcomed alternative offer from the UK-registered Standard Chartered Bank.

Refining the range of services for a new era

SINGAPORE

KATHRYN DAVIES

AFTER CREATING and nurturing the Asian dollar market (now standing at nearly US$60bn), Singapore is currently poised to refine and upgrade the range of financial services it can offer this decade, in what bankers are calling "the era of the capital market."

The Finance Ministry has before it a series of recommendations drawn up by the Securities Industry Council (SIC), which monitors financial developments in the republic, after consultations with members of Singapore's financial and stock-broking community. The Government is understood to be planning changes in the banking, insurance and finance Company Acts, liberalising some of their provisions. The stock exchange may also relax some of the listing requirements for foreign companies as an inducement to seek a listing on the Stock Exchange of Singapore (SES).

Singapore would like to break the vicious circle in which the equity market remains small, lacking depth and liquidity, because it is unable to attract a sufficient number of large local and foreign companies.

Most of the 265 companies listed on the stock exchange have a paid-up capital of less than S$50m (US$23m) and their shares are traded largely by small investors. An SIC survey revealed that few public companies in Singapore planned to get a listing on the stock exchange within the next five years. Institutions also account for a much lower proportion of share ownership than in other major financial centres.

Reviewed

The SIC has recommended that the brokerage commissions charged on transactions on the SES be reviewed to attract institutional investment and that the Government should permit the setting up of private pension funds.

One of the SIC suggestions is that companies in which the Government has a controlling interest should be listed on the SES. One of the first to comply was the profitable Neptune Orient Lines (NOL), whose chairman is the former managing director of the monetary authority (MAS), Mr. Michael Wong Pakshong.

NOL issued 36m shares at S$4 apiece last month and these were eagerly snapped up by local investors. The issue was oversubscribed more than 10 times, a response Mr. Wong Pakshong attributed to "right timing in a buoyant market."

A further development foreseen by local bankers is for companies like NOL, Singapore Airlines, the Public Utilities Board and Telecoms to begin to tap the domestic and Asian dollar bond and floating rate note markets for their funds as part of Government strategy. It is even suggested that the Central Provident Fund (CPF) and the Post Office Savings Bank could participate directly or through fund managers in both primary and secondary financial markets.

Disincentive

The CPF, the republic's compulsory savings scheme, is regarded by some as a serious disincentive to the development of the capital market in Singapore and to the fund management industry in particular. The fund currently stands at S$9bn (US$4.7bn) and mops up most of the money available for pension funds.

CPF provides a major source of government borrowing (between 80 and 90 per cent of the total fund is invested in Government securities) and will grow even more now that foreigners working in Singapore are being required to contribute.

The SIC recommends that the CPF should allocate part of its funds for investment in domestic securities or should set up its own investment fund to which a contributor could divert part of his CPF payment. The investment fund could be allocated 10 per cent of new issues in Singapore companies seeking listing on the SES. A hint that at least some of these suggestions may be acted upon came recently from the chairman of the Association of Banks, Mr. Tjio Kay Loen, who predicted that a portion of CPF funds would soon be released for public sector-related projects as well as for equity investments.

Singapore still lags behind Hong Kong in the field of syndicated lending. Despite a more aggressive approach by Singapore banks, the republic finds itself confined to its traditional role of funding such loans while the latter are arranged and booked elsewhere. One reason frequently cited by foreign bankers for Singapore's lack of success in this kind of lending — the lack of sophisticated legal expertise in the republic — is becoming less significant, as more foreign law firms are allowed to practise in Singapore. It is generally agreed that back-up services such as security printing are not yet adequate in the republic.

The Government is still reluctant to see the internationalisation of the Singapore dollar, although bankers argue that wider use of the currency in international trade and investment would lead to further growth of Singapore's foreign exchange, money and capital markets. It seems inevitable that backed as it is by an enviable growth rate, political stability and large external reserves, the Singapore dollar will be used increasingly for a variety of financial transactions and investments. However, in the short term MAS is poised to take action to close a loophole in the law which has existed since the abolition of exchange controls in June 1978. This enables banks and individuals to "swap" Singapore dollars and foreign currencies (usually the U.S. dollar) in a complicated series of transactions which enable banks to avoid reserve requirements and pass on the benefits to the customer.

"Moral suasion" on the part of MAS has succeeded in deterring most banks from engaging in this kind of offshore activity, but individuals continue to do so, disguising the deal by conducting the swap arrangement with two different banks. The Government fears that if the "Singapore swaps" continue, MAS would be unable to exercise its supervisory role effectively over both the banking system and the money supply.

Restructuring

It is not yet clear what the current restructuring of MAS and the creation of the new Government-owned investment corporation will mean for Singapore's development as a financial centre. Recent upheavals at MAS have held up the announcement of changes in the republic's banking, insurance and finance Company's Acts—all of which are likely to be aimed at attracting foreign banks and insurers to the republic. But what the authorities have in mind was made clear by Trade and Industry Minister Mr. Goh Chok Tong in his 1981 budget speech in March. Changes in legislation are part of an operational plan to make Singapore "a financial supermarket offering a wide and sophisticated range of financial services."

Powerhouse of financial operations

ZURICH

JOHN WICKS

FOR DECADES Zurich has been one of the world's leading financial centres. It has become a power-house of banking and investing services quite disproportionate to its size—with only some 377,000 inhabitants it is smaller than Bristol. Its bourse is second only to London among European stock exchanges; it is the home of something like 135 banks and finance companies, shares the role of major gold trader with London and is a leading light in foreign exchange markets.

Nevertheless, it would be misleading to talk simply of Zurich as meaning the whole Swiss financial system. There are, for example, several bourses in the country; though Zurich is by far the biggest, Geneva and Basle have important stock exchanges with large international operations. Similarly, big banking is not confined to Zurich's Bahnofstrasse; the Swiss Bank Corporation is based in Basle and Swiss Volksbank in Berne. The huge Swiss franc capital market, where foreign borrowings alone run at well over SwFr 2bn ($1bn) a month, is a national institution—as important as the role of Zurich undoubtedly is.

As in other Swiss cities, the functions of the Zurich financial centre centre largely on the bank. All 24 members of the city's stock exchange are banks, as are most of its over-the-counter dealers. A rise in the bourse's turnover to a record SwFr 132.6bn ($64bn) last year was largely responsible for the marked improvement of the banks' securities income.

Turnover

Trading volume, which in the past five years—with the exception of the 1978 setback—has been expanding, continues to grow. For the first quarter of this year total turnover was up by 16.6 per cent over the corresponding period of 1980 to SwFr 38.8bn ($18.75bn). At the same time the number of listings goes on increasing; by the end of March it had reached 1,829 bonds (406 issued by foreign borrowers) and 343 shares, of which as many as 164, were foreign).

While the Zurich turnover figures contain double bookings and are not immediately comparable with those of other stock exchanges, a recent study by the private banking house J. Vontobel and Co. shows that the bourse is by far the biggest on the Continent, quite apart from being more "international" than any of its main European competitors. (For the record, though, Geneva lists more foreign shares than Zurich and Basle almost as many).

Although business remains lively at the Zurich bourse, prices are currently not all that exciting. Early this month the Swiss Bank Corporation share index reached its lowest point this year, having fallen 6.7 per cent since the end of 1980. Average yields, little more than 3 per cent, are hardly very attractive in view of rising interest rates. Secondary market prices for bonds have fared better, though investors' reluctance to accept over-modest coupons for new paper has recently been pushing interest rates upwards and depressing many post-issue quotations correspondingly.

Generally speaking the volume of international securities trading has risen faster in the past three years in the world as a whole than in Switzerland. This is attributed not least to the raising of the stamp duty by 50 per cent on April 1, 1978, as a result of which many investors moved their custom elsewhere. It is not easy to win this sort of business back again. As the Swiss Bankers' Association pointed out earlier this year, the imposition of an issue levy meant that banks were at one time unable to participate in the placing of international issues in their own name. Though this levy was scrapped in 1974, the ground lost is being recovered but slowly.

Zurich and other Swiss centres have been relieved, however, of the threat of a 35 per cent withholding tax on domestic investors' income from foreign Swiss franc bonds. This move, which it was believed would have led to an exodus of borrowers, will not now be introduced. Nor, it seems, will a plan to slap a 5 per cent withholding tax on fiduciary accounts since a National Commission voted against it earlier this month.

Today, foreign investors are virtually free in the use they make of Swiss franc investment opportunities. With the stabilisation of the exchange rate far below its September 1978 peak, the need for restrictive measures has disappeared. Not long ago drastic bans and penalties had reduced new non-resident investments in Swiss franc securities and in the currency itself to a trickle. These restrictions have all now been scrapped. Now, with the exchange rate on the low side the authorities would like to see a bigger rather than smaller foreign presence.

Gold—In recent years Zurich has become one of the world's most important handlers of physical gold. Up to 80 per cent of total supply was at one time routed via Zurich. But the market, which consists of the Big Three's "Gold Pool" and a number of other dealers, no longer enjoys this privileged position.

Reintroduction

This is the result partly of the reintroduction — after 26 years' suspension — of the domestic turnover tax on physical transactions in bullion and coin at the start of last year. While the bulk of trading is handled on a transit basis and the banks have developed their metal account business, this has had a negative effect on Swiss gold business. At the same time the world market has been changed by the success of the New York and Chicago forward business.

Gold futures are also scheduled to start in London this month, and some Zurich dealers would like a similar market at home. The fact that the banks themselves today act as contract partners and clients' down-payments are naturally much higher than in Comex transactions means that at the most five to 10 per cent of all Zurich gold trading is currently in futures. However, there is opposition to as well as support for the idea — quite apart from staffing and other technical difficulties.

ZURICH STOCK EXCHANGE

	January 1981	(1980)	February 1981	(1980)	March 1981	(1980)
Turnover (SwFr bn)	12.86	(11.09)	12.42	(11.85)	13.52	(10.21)
Bargains	24,923	(28,459)	24,658	(28,458)	26,971	(27,694)
Monthly change in SBC share index (%)	−3.9	(+3.2)	+1.4	(−2.4)	−1.0	(−9.0)

Despite some loss of relative importance, precious metals trading and the allied sector of foreign exchange continues to earn a great deal of money for Zurich. Some banks recorded increases in profits from this activity of 60 per cent in 1980, particularly as a result of developments on the precious metals market. Less in evidence, but still important, is Zurich's position as one of the biggest handlers of foreign currencies in the form of banknotes.

Foreign Banks — Zurich has traditionally been the home of numerous foreign-owned banks and of the branches or at least representative offices of foreign banks. At present these total some 53 branches and incorporated banks, even excluding representations. As considerable as this contingent is — its combined assets equal a good 10 per cent of the total Swiss banking system's balance-sheet total — it has remained largely static over the past decade.

A major reason for this stagnation at a time when other international financial centres have been growing rapidly, is the very high ratio demanded by Swiss regulations between capital plus reserves on the one side and assets on the other. Given the large share of international business in total foreign bank operations, the own-capital coverage (albeit of liabilities, not assets, until this January) for this segment of the Swiss banking community reached no less than 13 per cent according to the last annual report of the Association of Foreign Banks in Switzerland.

This consideration, together with the Banking Commission's relatively strict rules on reciprocity, mean that no further growth of any note is likely in the number of foreign banks based in Zurich, Geneva and other Swiss cities.

On the contrary, the Swiss banks are constantly strengthening their presence abroad. While most major banks follow the principle of "controlled expansion" in this field, the country is already very well represented in most parts of the world. Although many banking services, including portfolio management, may be growing faster in some foreign centres, Swiss banks are taking part more and more in operations outside Zurich and their other traditional homes. The consolidation of banks' balance sheets shows just how important this development has already been.

Determined

Switzerland in general and Zurich in particular will indisputably remain among the world's great financial centres. It may not be possible for the banks to carry out much more in the way of dynamic expansion of actual on-the-spot business; the past years have seen a decline of the relative importance of Zurich in many fields. But the Bahnhofstrasse will continue to build up its significance as a nerve-centre for international financial transactions. Apart from a further absolute growth in Swiss-based business itself, banks seem determined to take part in what may prove the more rapid emergence of competitor centres by spreading their wings abroad.

Future changed overnight by Mitterand victory

PARIS

TERRY DODSWORTH

PARIS'S POTENTIAL future as an internationally banking and financial centre has been changed overnight by M. Francois Mitterand's victory in the French Presidential elections.

One of the main economic proposals of the Socialist Party which M. Mitterrand has forced over the last 20 years is to bring the private banking system into the already extensive nationalised banking network.

The gentle moves the previous administration had been making to open up the nationalised banks to private capital will presumably be stopped, while the system overall goes into reverse.

The big *banques d'affaires*, such as Paribas and Suez, stand to be taken over by the state, along with the remaining private deposit banks such as Credit Commercial de France (CCF) and Credit du Nord.

It is difficult to measure the likely impact of these measures, partly because France has lived under an extensive system of state banking for so long. General de Gaulle pushed through the nationalisation of the main deposit banks immediately after the last war.

Today it is reckoned that about 80 per cent of the French financing system is controlled by the nationalised or semi-state controlled sector — either the three big deposit banks or the mutualist banking bodies dominated by Credit Agricole, the organisation established specifically to finance French agriculture.

Given the fact that the Bank of France, also nationalised marches closely in step with the Treasury, the country's financing mechanisms are already closely patrolled by the Government.

Weapons

What the Socialists are aiming to do now is to take this control a little further as one of the weapons to be used in the central planning operation.

M. Mitterrand has made it clear that he intends to restore the five-year planning system to its former strength after its gradual decline during the Presidency of M. Giscard d'Estaing. This policy is aimed at steering investment as part of the growth programme.

Foreign banks are not threatened by these nationalisation proposals, according to some recent declarations by Socialist Party officials. Indeed, there have been some suggestions that smaller banks of all kinds — and most foreign banks in France are relatively small—will escape the net.

But there are bound to be questions about some organisations which do not easily fall into any preconceived category. What will happen, for example, to Midland Bank's BCT subsidiary? This largely property financing bank, rescued from near-collapse two years ago, has substantial minority French shareholders, who own 32 per cent of the shares.

It could be regarded as sufficiently French to be taken over, particularly since the building and housing sector is to be boosted by the new administration.

Pillar

The uncertainty hanging over the future of banking extends to the Bourse—the second pillar of the financing system erected by the previous Government. The first problem for the Bourse has been the impact of threats of nationalisation of the main industrial companies. This fear has swiftly been translated into a wholesale marking down of shares which has taken in far more than the groups immediately under threat.

Underlying the panic that created this slump is the conviction — not without some foundation—that the Bourse will not be favoured by the incoming administration. Under President Giscard and M. Rene Monory, his reforming economics minister, savings were redirected into the Bourse, to both the equity and bond markets.

Fiscal policy was aimed at directing savings towards long-term instruments on the Bourse, draining them away from the savings bank system. As more funds came into the Bourse, activity increased, maintaining prices; and expanding private companies began increasingly to consider it as a source of funds.

This trend towards a steady expansion of the Bourse has now been brought to a halt—at least for the time being. In the first place, the market will shrink considerably if the big nine industrial companies—all including the two half-nationalised steel groups—are brought under state control.

Furthermore, the new government is extremely unlikely to carry on with the so-called "Monory" SICAV arrangements for giving fiscal relief for family men investing in unit trusts.

This was due to end, anyway, in December this year—but it was expected to continue in a modified form. Without the SICAV funds attracted by these taxation measures, a lot of the new money which might have come into the market, as it has during the past three years, will go elsewhere It is reckoned that about FFr 4bn a year has been raised by the Monory SICAVs since 1978.

Finally, the "avoir fiscal" taxation practices designed to stop double taxation of shareholders is almost certain to be abolished or modified by the incoming administration. Again, this would be a considerable disincentive to many investors.

The gradual reform and expansion of the Bourse in the past few years has been an important element in the development of Paris as a financial centre. Undoubtedly there has been some psychological spin-off for the banks, as well as practical effects in the increased volume of stock trading business they have been asked to deal with.

In the longer term, the banks would also have gained from the planned reform of the Bourse, designed to put all their stock market business out to their computers—the banks have a big business dealing with share certificates. This would have been one more step towards the streamlining of operations to which all the banks are turning.

Is the longer term, the question of whether M. Mitterrand's takeover as president will put a brake on the expansion of Paris as a banking centre is difficult to answer. It is possible that the rapid influx of foreign banks would have begun to diminish anyway.

Since 1968, with the relaxation of many restrictive regulations, the number of foreign banks in Paris has risen from 48 to 117.

A large number of these came in the wake of the international development of the French economy. When foreign industrial companies came to France to invest or export, their banks followed them, and have developed their business in the country from there.

Recycle

Another important group has come from the Middle East, as part of the general move to invest and recycle petro-dollars, as well as to move away from Beirut. By the end of 1970, the Paris banking community included 52 European banks (of which a third came from the EEC), 29 from the near and Middle East, 24 from North America, 5 from Asia, 4 from Africa and 3 from South America.

Alongside this growth the banks in France have gradually expanded their activities in the money and bond markets. The overseas expansion of French industry and commerce has demanded a big development of currency dealing.

Equally, the financing of exports through consortium credits has grown rapidly, along with the move into the Euro-dollar and Eurocredit markets. In addition there have been signs of the French administration encouraging the development of new monetary instruments, such as French franc certificates of deposit and a secondary market in country risk.

The Socialist President's victory is unlikely to halt these developments. But it may well modify them. Quite apart from the new administration's specific proposals for banking, the economic climate could be changed radically, creating new demands on the banks. State borrowings are planned to go up, and investments in France are to be stimulated. There will be no lack of opportunities for the banks, but the ball game has changed a little.

More of domestic than of international importance

FRANKFURT

STEWART FLEMING

IN THE centre of Frankfurt, in sight of the newly reconstructed Opera House, the twin towers of Deutsche Bank's new headquarters, are rising. Directly opposite, across the Mainzer Landstrasse, stands a tower block occupied by one of the largest U.S. banks, Chase Manhattan. The juxtaposition could perhaps stand as a symbol for the international character of Frankfurt as a financial centre.

However, when you turn to the Bundesbank statistics it quickly becomes apparent that foreign banks have under 3 per cent of the German banking market. Frankfurt has all the outward appearances of an international financial market but in reality its development lags far behind competitors such as London and New York. It is not easy to understand how all the 180 foreign banks with offices in Frankfurt justify their presence in the city.

Whatever Frankfurt's limitations as an international financial centre, what is not in doubt is that the city is West Germany's pre-eminent domestic financial market place. Even this judgment needs to be hedged with a word of caution however for Frankfurt does not play the role that London does for the UK, even in the domestic sphere.

In Dusseldorf and Munich there are powerful banking organisations headquartered with major international operations as well as solid regional foundations. Munich boasts three of the largest West German banking institutions, Bayerische Vereinsbank, Bayerische Hypotheken-und-Wechsel Bank and Bayerische Landesbank.

With that qualification however the pre-eminence of Frankfurt remains. More than 330 banks have a presence in the city, of which around 150 are West German. These include seven of the top 10 private West German banks. The 180 foreign banks have operations ranging from subsidiaries to representative offices. The presence of the foreign banks has been a major factor in the broadening of the foreign exchange market in the city.

Another factor adding to Frankfurt's role is the presence in the city of the headquarters of the Bundesbank, West Germany's powerful and independent Central Bank, which through its monetary and open market policies has a direct daily impact on the fixed interest and foreign exchange markets.

The principal West German stock market is also located in Frankfurt—although it has to be remembered that partly because of the financial history of the Federal Republic and also because of the major role of the universal banks, West Germany's stock markets are relatively underdeveloped in comparison with the UK or the U.S.

Thus on the Frankfurt stock exchange only 224 domestic stocks were listed, alongside 182 foreign stocks, at the end of last year. The market capitalisation of the equity issues then was DM 124m (£25.8m). The total value of trading on the exchange was a mere DM 39bn (£8.1bn) in 1980. That was a 24 per cent increase on 1979, with the rise reflecting the increasing volume of fixed interest trading.

With its financial markets, its foreign banking presence, the significance of its economy and currency in international commerce and relatively open capital market Franfurt would appear to have the foundations essential for it to be an international financial centre.

For a variety of reasons however it has developed much more slowly than might have been anticipated. Some clues which help to explain the reasons for this are to be found in the growth of nearby Luxembourg as an important international financial market place. It is barely conceivable for example that leading German banks would have set up operations conducting international business in Luxembourg if the business could have been done just as easily out of Frankfurt.

In addition to tax disadvantages restrictive German banking laws covering capital needs, liquidity and foreign exchange trading, as well as the Central Bank's minimum reserve requirements are among the factors which contribute to Luxembourg's growth and inhibit the development of Frankfurt as an international financial market place.

Like the domestic German banks, the foreign aid banks find in these regulations reasons for not expanding their presence in Germany. Reform of the laws seems unlikely to do much to alter this situation, although it is conceivable that changes might deepen participation by the international banks in the domestic money markets.

Chauvinism

Beyond the regulatory environment other factors inhibit Frankfurt's development. Even German bankers concede that the chauvinism of the Germany banking community is one such element.

Thus it was in April of this year that a foreign bank (Morgan Guaranty Trust of New York), through its German branch became the first non-German bank to participate in a leading position in a major German export financing package with a group of German banks for a leading German company. The deal was a $220m export financing to Companhia Energtica de Sao Paulo, Brazil, to finance exports of electrical and mechanical equipment by Siemens.

Some bankers complain that the City's financial markets lack the depth and flexibility to be found in the U.S. and London—the inability for example, to sell securities short is cited as indicative of the problem.

Despite its limitations international financial institutions are retaining and building their commitments in the city. This reflects in part the growing importance of the Mark as an international reserve currency as well as the importance of major German corporations in world trade. Foreign bankers suggest that their offices are vital listening posts as well as locations from which they can service German clients with international interests. The fact that the loans they make will often, for tax and regulatory reasons, be booked elsewhere and not show up in the Bundesbank's data, merely means that the statistics tend to understate the City's importance.

There are hopes that some of the attitudes which have tended to impede the development of international banking business in the city are eroding. Some foreign bankers say they detect a more Anglo-Saxon business mentality creeping in as German bankers see greater attractions in sharing risks and, as one banker put it "for the first time see the benefits of reciprocity."

It is suggested that this process could be accelerated by the changed financial circumstances of the German economy. It is accepted that the problems of financing the current account deficit might be made easier if the domestic markets were made more attractive to holders of liquid funds. But existing attitudies and business methods are well entrenched and the pace of change is expected to be slow.

Looking to the retail sector for new income

LUXEMBOURG

PETER MONTAGNON

TWO MAJOR German subsidiaries in Luxembourg have announced zero net profits for their latest statement year—albeit for rather different reasons.

Cie Financiere de la Deutsche Bank clearly did make substantial profits in the Grand Duchy with a declared surplus of interest income over expenditure of LuxFr 2.2bn ($60m) compared with only LuxFr 1.4bn a year before.

It decided, however, to apply all its net profit to hidden reserves, allowing it to take some specific provisions against possible losses in its international loan portfolio.

The bank said it felt justified in taking this step because of the growing uncertainty in international bank lending. It has not disclosed which loans are the subject of such provisions, although it is believed in Luxembourg banking circles that at least some of the profit generated in 1979/80 was applied to provisions in respect of part of its exposure to Poland.

This procedure also enabled the bank to pay less in tax. Tax payments slumped to LuxFr 218m from LpxFr 657m, although the Luxembourg fiscal authorities may yet decide to challenge the basis on which the tax estimate was computed.

The case of Commerzbank International, which also declared zero net profit, was rather different. Its interest expenditure actually exceeded revenue by LuxFr 957m.

The bank's parent in Frankfurt has also confirmed that it transferred DM 63m to Luxembourg from its inner reserves last year. This followed Commerzbank International's sale to its Frankfurt parent of its 25 per cent stake in the engineering concern Sachs AG.

The circumstances in which these two banks chose to declare zero profits are thus far from similar. Deutsche Bank obviously did much beter than Commerzbank—but there is no doubt that the announcement of a zero net profit result from two such prestigious organisations has thrown into sharp relief the sorry state of international bank profits in Luxembourg.

Concern

Overall bank profits in the Grand Duchy are estimated to have fallen by around 5 per cent last year. The reasons for this are well-known and have been a source of concern to the banking community for some time.

On the one hand, margins in Eurocurrency syndicated lending are now so low as to make such business barely profitable. While the decline in margins has been a long-drawnout affair, banks were shielded from its worst effects at the beginning by the comparatively large amount of old, high-yielding credits on their books. As these credits have been steadily paid off, they have found their overall average yield declining quite rapidly.

German banks have been able to offset this problem to some degree by lending out of Luxembourg to smaller corporate borrowers in Germany itself. Such borrowers are not well enough known internationally to tap the Euromarket openly for funds, but they are usually first class risks.

Because for much of last year Eurocurrency rates were lower than domestic rates in D-marks, the banks were able to charge high margins to such borrowers, in some cases giving them an equivalent return of 1.5 per cent over Libor.

But there is little prospect of a general increase in margins for other types of borrower. Most German banks reckon they need a margin of about 0.75 per cent over Libor to make a profit on any transaction and most of the best names in Europe and elsewhere are now paying rates below 0.5 per cent.

The other main problem for the German banks in Luxembourg has been the rising trend of world interest rates. Many of them—and Commerzbank was certainly included in this category—had extended a large amount of fixed rate finance which had to be funded in the money markets.

Squeeze

This was all right as long as money market rates remained below long term capital market rates, but the backward sloping yield curve evident in recent times in most major currencies has caused a fierce squeeze on margins.

Moreover, the rise in international bond yields has forced a number of banks to make large write-offs in their holdings of securities.

If interest rates were to come down they might be able to recoup some of these losses, but recent events around the world suggest that there seems to be little prospect of interest rates easing permanently for some time to come.

The tight monetary policy being pursued by the U.S. Federal Reserve Board has spilled over into Europe and the Bundesbank in Germany is being forced to maintain a high level of interest rates to ward against currency outflows that could only aggravate the country's already poor balance of payments position.

Confronted with all this there is evidence that the banking community in Luxembourg is now turning its attention to other forms of business.

Luxembourg has traditionally been a wholesale banking centre, attracting a large number of foreign banks especially from Germany through its lack of reserve requirements and relatively relaxed regulatory atmosphere.

What the banks are now trying to do is develop forms of business that generate fee income without bloating their balance sheets.

The aim is to attract wealthy private individuals to Luxembourg banks in a move that will round off the shape of the banking industry there by adding a new retail dimension.

The infrastructure of the banking system is already changing to accommodate this. Earlier this year Luxembourg introduced a daily gold fixing on its stock exchange as a public demonstration of its new-found interest in gold trading.

Bankers in Luxembourg are quick to point out that gold trading in the Grand Duchy is free of value-added tax, whereas both Switzerland and Germany have tightened the taxation of gold in recent years.

Equally significant is the growth of fiduciary accounts which grew last year by LuxFr 12bn to LuxFr 41bn. Holdings of unquoted securities such as Certificates of Deposit and private placements also rose sharply by LuxFr 74bn to LuxFr 175bn.

Both these statistics point up the growing interest in Luxembourg banks in managing funds for wealthy private investors.

Luxembourg is also in the process of establishing a legal definiton for bank secrecy, a development which should stimulate even further the interest of private individuals in Grand Duchy banking.

COUNTRY PROFILES

System heads for progressive restructuring

JAPAN

SABURO MATSUKAWA

A LONG-RANGE trend for profit margins to decline is working steadily towards the restructuring of the Japanese banking system. Pressure for changes will also increase through the gradual liberalisation of Japanese money and capital markets and the internationalisation of Japanese banking operations.

Principles of free competition are being slowly introduced into the system, which features a rigidly controlled interest rate structure, direct lending curbs and allotment of respective roles to various groups of financial institutions. Interest rates on the call loan and bill-discounting markets have been freed, although they continue to operate under strong indirect guidance from the central bank. Gen-saki market, a relatively free short-term repurchase market for bonds, has been allowed to develop, while banks have been permitted to issue negotiable yen certificates of deposit under certain restrictions outside the officially controlled bank deposit rate structure.

A new Foreign Exchange and Foreign Trade Control Law, which came into force on December 1, 1980, liberalised several foreign exchange transactions, including foreign currency accounts held by Japanese. Monetary officials say they would like to increase the efficiency of Japanese banks to improve their international competitiveness. The hierarchy of Japanese financial institutions, with leading city banks at the top and numerous credit associations at the bottom, is due for reorganisation.

The present Japanese banking system, developed after World War II, played a major role in the period from the late 1950s to the early 1970s to help the Japanese economy achieve an average annual growth rate of about 10 per cent. Japanese industries were chronically short of capital and had to borrow heavily from banks because the local capital markets were still underdeveloped.

Traditionally

The Japanese people, with their traditionally high savings rate, deposited the bulk of their savings with banks, which also depended on credits from the Bank of Japan. Because banking business expanded rapidly with industrial production, banks were able to increase their earnings steadily.

Since the oil shock of 1973 Japan's economic growth rate has slowed down to about half that of the previous period of phenomenal expansion. The quadrupling of oil prices came at a time of rampant inflation, which was followed by a prolonged recession.

To deal with the recession Japanese enterprises trimmed excess labour and rationalised their operations. They also reduced fixed expenses, thus becoming less dependent on bank borrowings. A credit squeeze introduced to combat the previous inflation led Japanese enterprises to increase their borrowings overseas, while Japanese banks themselves had to borrow abroad to cover Japan's balance of payments deficits.

Later, with the expansion of Japanese money markets, the banks invested their surplus funds there, while consumers diversified their financial assets into instruments other than bank deposits. Lending rates often declined faster than bank deposit rates, which were maintained at a relatively high level.

While industries pressed banks for reductions in their lending rates, the Japanese Government issued large amounts of national bonds after 1975 to increase expenditures for public works as a stimulus to the national economy. Banks were forced to purchase a large portion of the deficit-covering bonds issued with low coupon rates fixed by the Ministry of Finance at a level lower than the secondary market. Massive flotation of national bonds also caused their secondary market prices to fall sharply, further aggravating the profit squeeze for banks, whose national bond holdings had to be valued at the lower end of cost or market value until the rule was modified in December 1979.

A controversial question which delayed the presentation of the Bill for amending the Banking Law to the National Diet (Parliament) for months in early 1980 was whether banks should be allowed to sell national bonds they have underwritten at their business offices and deal in their secondary market.

Under the 1949 Securities Trading Law banks are banned from engaging in securities business, except for the underwriting of national bonds. Banks demanded that they should be allowed to sell the national bonds to the public, since they are forced to underwrite a large portion of their issue. But securities companies strongly opposed such a measure and the controversy ended in a vague compromise.

Banks are also demanding that the Ministry of Finance guidelines over Japanese banked securities operations overseas should be scrapped, because they place them at a disadvantage in competing with foreign banks.

This month the Bank of Japan created a temporary secondary market for 60-day Government bills. They are issued at a low interest rate fixed by the Ministry of Finance and exclusively underwritten by the central bank. The central bank sold the equivalent of $8bn of the bills at the short-term money market rates. This may turn out to be a step forward towards the bank's long-cherished aspiration of having the bills issued through public auctions and putting them at the centre of short-term money market in Japan.

Another significant step taken by the central bank was the introduction in March last of a Lombard rate-like system of supplying central bank credits at a higher rate than its discount rate to prevent an outflow of Japanese capital attracted by high U.S. and other overseas interest rates. The system may be invoked speedily by the central bank in an emergency.

The decline in the profit margins of Japanese banks is also attributable to steady expansion of their overseas activities. Because of domestic controls, they seek outlets abroad where they can engage in freer competition.

Accounting

Except for the Bank of Tokyo, which specialises in foreign exchange operations, leading Japanese banks' overseas assets are now estimated at between 20 per cent and 30 per cent of their total assets, although the percentage varies according to the exchange rate of the yen, into which they are converted for accounting purposes. Some of their long-term overseas lendings carry fixed interest rates, but they are often backed by short-term borrowings from the Eurodollar market. When Eurodollar rates rise sharply, as they did recently, Japanese banks' overseas interest margins decline.

The decline in profit margins in Japan and overseas has been affecting smaller Japanese banks particularly seriously. One factor in the situation has been the shifting of bank deposits to the postal savings service, which is probably the largest savings bank in the world. It can fix its deposit rates at slightly higher levels than private bank rates.

Under the controlled banking system there has been no bankruptcy of banks in Japan since the end of World War II. There is a tacit understanding that monetary authorities will bail out any member of the system in trouble as a quid pro quo for their controls and supervision. The main question now is whether the whole structure can be reorganised through mergers and re-alignment without casualties.

Wary eye on new legislation

ISRAEL

DAVID LENNON

LEARNING TO live with three-figure inflation has been one of the major tasks of Israelis and their economy over the past couple of years, but last year the banks here finally got on top of the problem and returned to real profit after the losses of 1979.

If this was a source of cheer for the banking system, 1980 also brought some worries about the impact of new laws introduced by the Knesset (Parliament) designed in part to curb the ancillary activities of the banks.

The key to solving the inflationary problem was the introduction of positive interest rates. These were adjusted half a dozen times during the year to keep them ahead of inflation—which hit a record 133 per cent. The banks also adjusted their service charges accordingly.

A parallel problem was the taxation of inflationary profits which the Government was unwilling to reduce because of the public's belief that the banks actually make far too much profit. Bankers say that no politician wanted to be seen as giving the banks any additional benefit.

Left to their own devices, the banks sought shelter against this taxation by investing in inflation-proof fixed assets at home and abroad. Their method consisted mainly of purchasing properties for the expansion and modernisation of their branches in Israel and increased investment in assets abroad.

These two reactions to inflation played a major role in the bank's return to real profit, rather than simply the massive nominal profits which are recorded in hundreds of millions of shekels but are basically meaningless.

According to the Controller of Banks at the Bank of Israel the banks made a 1.5 per cent real return on capital last year. Whereas they had incurred a "real" loss in 1979.

Some of the commercial banks query the Controller's conclusion, arguing that the methods of adjustment for inflation are inexact.

In any event few bankers looked particularly grouchy when talking about last year's profits. The largest banking group, Bank Leumi, reported its net consolidated profit up by 201 per cent in 1980 to IS 525m ($70m); fast-growing Bank Hapoalim recorded net consolidated profits up by 217 per cent to IS 639m ($85m); the third-placed Discount Bank group's net consolidated 1980 profits were up by 206 per cent to IS 462m ($62m). The two smaller banking groups, United Mizrachi and the First International Bank of Israel, reported even larger percentage growth.

These are of course inflationary profits which have to be considered in relation to the country's 133 per cent inflation rate in 1980. But even when they report on their "real" profits the banks say that last year they were in the range of 30 to 60 per cent higher than in the previous year. This is a year-to-year comparison and not to be confused with the Bank of Israel's figure of 1.5 per cent profitability relative to capital.

Such profits cause the banks some problems. Not only are they taxed on inflationary profits: the huge sums reported create a negative image in the public's eye of the banks as rapacious profiteers.

Stipulation

It is this image problem which bankers say lay behind the decision of the Knesset to legislate new and more restrictive banking laws. One of the most worrying of these is a stipulation that the banks may not own non-banking enterprises such as factories, hotels, building companies, insurance or even investment companies. The banks have been given four years to divest themselves of such holdings.

The Controller of Banks explains that the limitations are designed to preserve stability. A bank may own shares in non-banking enterprises but it must not have control. The aim is to avoid a bank having too large a financial commitment to individual undertakings which might lose money and drain away the parent's resources.

Laying down strict criteria for what a bank can or cannot do is in a way going counter to the real nature of the Israeli banking system. It is universal, with the banks offering a wide range of services to their corporate and personal customers including mainstream banking, short- and medium-term lending and modern payments system as well as corporate financial services, investment banking and portfolio management. Indeed the system is so broad that there are no separate corporate and retail operations.

For example, the commercial banks are the major factor on the Tel Aviv Stock Exchange, carrying out 90 per cent of all transactions. They also underwrite almost all new issues. With a network of over 1,000 branches throughout the country the banks are the country's largest brokers.

The new laws do not affect the banks' role in the stock market. This must be a relief for them because last year's big boom in the market gave them handsome profits not only on their own issues and holdings but also from the brokerage fees, the volume of which grew very substantially last year as the public rushed to the stock market in an attempt to protect savings and if possible to keep ahead of inflation.

The banks are the largest source of investment in the economy after the Government, and have played a leading role in the development of many companies. The new legislation will force them to divest themselves of these companies, unless the bankers decide to drive a coach-and-four through a loophole left by the legislators.

The Bill does not prevent a holding company from owning both a bank and other enterprises. Indeed this is already the case with the Israel Discount Bank, which is owned by the IDB Bankholding Corporation. Over at Bank Leumi and Bank Hapoalim there is serious talk in the parlours about creating simular roof bodies which would enable the banks to continue their investment operations.

This could be done while still creating the impression that the law was being observed. The banks could follow the lead of the Discount Group which has created a new daughter company into which have been transferred all the bank's investment companies. Thus it has separated its banking and investment operation while still keeping them inside the holding company which owns both the bank and the investment company.

Some bankers complain that the new legislation was based on the misapprehension that there is no competition among the banks. They say the competition has been fierce in the last few years. This is a doubtful claim however, even though the two smaller banks have been creating the semblance of competition in recent months by extending their opening hours and at one stage even offering higher interest rates on savings schemes.

In reality, with the leading three banks controlling over 90 per cent of banking, there is little the smaller banks can do. Indeed the attempt by one bank to offer higher interest rates on savings schemes was quickly snuffed out, so rapidly in fact that anti-cartel department of the Industry and Trade Ministry cautioned the Big Three against collusion over interest rates.

But the bankers, while wishing to be more popular, cannot complain about performance last year. In addition to recovery at home they have also had a very good year in their international operations. With 105 branches and subsidiary operations abroad Israel's banks are now well established in the key financial centres and areas where there are sizeable Jewish communities. They keynote for these operations this year will be consolidation by the big banks, while the smaller groups will try to develop their own foreign networks.

Island havens under pressure

OFFSHORE CENTRES

JOHN MAKINSON

THE SMALLER offshore banking centres are coming under pressure. They have long recognised that playing host to banks is more lucrative than printing postage stamps but are now having to work harder to protect their position.

The challenge is being made by existing banking centres which are now competing more intensively for a larger slice of the massive Euromarket cake. The 1970s saw the emergence of Luxembourg as a major centre, particularly for German banks, complete with liberal capital ratios and advantageous tax laws.

More recently, Hong Kong has been attempting to establish itself as the principal financial centre of the Far East. An increasing amount of Euromarket business is being done from the colony and efforts are being made to improve the area's reputation by tightening up on disclosure laws.

But much the greatest threat to the small island states, particularly those in the Caribbean, is now being made in the U.S. The Federal Reserve Board's support for a form of offshore banking in the U.S. has worried even London and seriously questioned the role of the minor centres.

The Fed has agreed to exempt certain types of international transaction from both reserve requirements and interest rate ceilings on deposits. Until now, many of these transactions have been conducted through tax havens.

Equally worrying for the offshore centres is the decision to allow state authorities to exempt offshore business from local taxation. Delaware has already introduced very liberal tax laws for such business and, to the consternation of the Caribbean, Florida may follow.

Few offshore centres are in a position to make their own tax laws much more attractive than they already are, so their response needs to be ingenious. They emphasise the relatively low staff and rental costs of their cities and attempt to develop niches in the banking and insurance markets which have not been investigated elsewhere.

Political uncertainty in Eastern Europe and the Middle East have, to an extent, mitigated the problems of the Caribbean centres.

In the Bahamas, for example, the number of Swiss banks has been growing sharply and totalled nearly 30 at the last count.

The position of the Bahamas as a booking centre for Euro-lending transactions is seriously threatened by the U.S. moves. More than 300 banks have branches in the Bahamas and their collective loan portfolio is estimated at around $85bn—more than any other centre except London.

The removal of reserve requirement on international lending will almost certainly tempt many banks, particularly those based in the U.S., to repatriate their Eurolending business. The absence of income tax in the Bahamas will still count as a point in its favour—but bankers are also concerned by signs of political unrest in the area and a move towards "Bahamianisation."

The Nassau authorities are responding to the threat. They have tightened the bank secrecy laws and are examining the idea of establishing an offshore commodity exchange and stock exchange. The Bahamas is also trying to cash in on the lucrative captive insurance business—a speciality of the nearby Cayman Islands—and is slowly developing a local certificate of deposit.

Compensate

There is no shortage of ideas in Nassau but the main question is whether they can be realised in time to compensate for the loss of Euromarket business to New York.

Bermuda is a relatively late entrant to the offshore banking business. But since 1975, the number of registered international companies has doubled to more than 5,000—one company for every 11 members of the population.

Bermuda's specialities have been shipping and insurance but it is now preparing to introduce a fully automated financial futures exchange. Bermuda is hoping that the move will enhance its reputation as an international financial centre and that the exchange's technical wizardry will attract participants from centres where "open cry" trading is still the norm.

Sceptics doubt whether the market will be able to provide the necessary liquidity but the exchange is going ahead with plans to offer 600 seats at $12,500 each.

The Cayman Islands provides an excellent illustration of how important offshore banking business can be to a small economy.

The country boasts 322 banks and trust companies, 10 per cent more than a year ago, and between them they are estimated to have contributed 11 per cent of Government revenue in licence fees alone last year.

In order to retain this lucrative business, the smaller centres must ensure excellent communications. The Cayman Islands operate their own airline, have an automatic telex exchange and direct access to a satellite communication system.

For a country with a population of 17,000 and a Gross National Product of $72m in 1977, this represents a major investment.

The plethora of offshore banking centres in the Caribbean is partly a geographical accident. They share a time zone with New York

CONTINUED ON NEXT PAGE

Campbell team sparks off unwonted activity

AUSTRALIA
COLIN CHAPMAN

AUSTRALIAN banking is in a state of ferment. In the past few weeks the boards of the *major trading banks have shed* their staid and conventional image as the gloves have come off in a public and undignified takeover scramble to become top dog. At the same time the industry awaits the publication of a report by a committee headed by Mr. Keith Campbell which has carried out a searching inquiry into the Australian financial system.

The Campbell committee is expected to recommend the substantial deregulation of Australian banking and the admission over a period of time of a limited number of foreign banks. The Government, through the Treasurer, Mr. John Howard, has already indicated a certain sympathy with that viewpoint and action may not be long in coming after the report lands on Mr. Howard's desk probably towards the end of July.

New technology is bringing electronic banking to the customer, with two of the *major* trading banks offering facilities to deposit, withdraw or transfer funds at automatic tellers sited at key city and suburban locations. The banks have also had to fight back against powerful competitors like the building societies by increasing the returns available to savers and by offering a number of ingenious new schemes which blur the traditional division between trading and saving banks.

All these developments are inter-related. The aggressive and open way in which the Campbell committee has gone about its task—it has been particularly receptive to evidence from overseas financial institutions established in Australia—was the catalyst for a spate of competition between the trading banks and the recent merger activity.

The most spectacular merger is that of the Bank of New South Wales and the Commercial Bank of Australia (CBA) to create a new group which will have assets of A$23.6bn, one-third of major trading bank deposits and 17 per cent of savings bank deposits. The Sydney-based Wales achieved a major coup by trumping the earlier bid for the CBA from the Australia and New Zealand (ANZ) Bank — a grouping with the added disadvantage that it would have led to branch duplication, particularly in Victoria, and therefore the possibility of retrenchment among staffs and middle management.

Initially

The new group, as yet to get a name but definitely to acquire a new title and image, will initially have 1,770 branches—1,530 in Australia, 200 in New Zealand and the rest scattered around the world. It will be the 78th largest banking group in the world.

The Government has indicated it will not intervene to prevent these takeovers — although it has the power to do so—and both shareholders and customers at home seem bemused by the sudden frenzy of activity.

Senior managers are still smarting at the much-publicised comments by Mr. Fred Whittemore, a managing director of Morgan Stanley, that Australian banks were "too conservative" — with the country having a vast development boom "with less involvement of its own financial institutions than you would find in any other country."

The banks are hoping that deregulation by Canberra and their enhanced size will enable them to link into the major world resource projects.

The ability to provide resource finance for major Australian projects is coincidentally one of the major planks of the case put forward to the Campbell committee by foreign institutions, along with trade finance. The Bank of Tokyo and the Hongkong and Shanghai Banking Corporation presented a special case on Asian trade; *competition in foreign exchange* was promoted hard by Barclays and Citibank.

At present Australian banks enjoy considerable advantage over local foreign competitors since they alone are able to deal in foreign exchange and hence finance trade. But they charge rates which are double those in Britain, the U.S. and Europe, and foreign banks say they will break this cartel if they are given banking licences.

Only one of the candidates for a licence, Citibank, seems disposed to open a branch network of any size. Citibank, through Citicorp, has about 80 offices across Australia, and has indicated it would be prepared to operate as a bank on this scale, recruiting extra staff from the market in order to do so.

Although Treasurer Howard has gone on record as suggesting that the entry of foreign banks evokes a "degree of symbolism" by which he appears to welcome the possibility of Sydney maturing to become one of the world's major financial centres—it still seems improbable that Australia will open its doors to all-comers.

The Campbell committee appears most likely to recommend on such lines so that the local industry has time to adjust. The question then arises: which banks and how should they be chosen. Mr. Howard is not short of advisers on this score. They range from those who suggest that licences should be put up for auction to those who feel that the foreigners to be allowed in should be those that put up with the toughest terms.

The Campbell committee will probably make a list of suggested conditions. One indication of what these will be came recently from a consultants' report prepared by Dr. Mervyn Lewis and Mr. Kevin Davis of the University of Adelaide. They recommend that foreign banks be limited to wholesale business, or to specific trading areas, and that those gaining licences be required to divest themselves of *other financial interests in Australia.*

But about 90 overseas banks are already operating in Australia, and they in turn own or are associated with 32 merchant banks and 17 finance companies. In addition the banks have interests in mining, leasing, insurance and computing. Most of the foreign banks have given decidedly Delphic answers to questions about what would happen to these interests were they to get a licence, but the lesson of banking is that it has proved hard in the past to confine banks to particular areas.

Threefold

Moreover, some overseas institutions have shown that they can do very nicely without a banking licence. Britain's Hill Samuel, for instance, opened a cash management trust last December with the goal of building it up to $A50m by the end of this year. The trust invests its funds in Government or bank-backed securities and is currently offering 24-hour money at rates that have attracted deposits out of building societies and savings banks. By last week it had already exceeded its 1981 target threefold.

This kind of activity has led both finance companies and building societies to press for status as banks. They want to establish credit card systems—and some building societies want the right to diversify from home lending and acquire some of the privileges of protection extended to banks. All in all the next 12 months should see competition in Australian banking in full force—and for the first time.

Strong drive for deposits

NEW ZEALAND
DAI HAYWARD

THE HIGH rate of inflation—New Zealand's biggest economic worry—poses special problems for the banks, which are now directly affected by Government efforts to force down interest rates as one means of reducing inflation.

In late March the Government, through the Reserve Bank, moved into the short-term money market, pumping millions of NZ dollars into the money supply to buy up commercial bills and other securities. This eased the pressure on interest rates at a time of very tight liquidity because of the March tax payments.

Many of the securities bought by the Reserve Bank had only a short maturity—in some cases only a matter of days—but the bank's action prevented an upward movement in interest rates at a time such a rise could have been expected.

With an election due in November Prime Minister Robert Muldoon is anxious to point to some success in the long-promised action against inflation. He is equally anxious to force interest rates down, although these are below the inflation level, and thus ease the burden on home buyers, farmers and other borrowers.

The Government's actions are viewed somewhat cynically by many in the banking and finance world and some critics claim any improvement in 1981 through increasing the money supply will lead only to greater problems in 1982. But by then the election will be over and the Government of that time will be able to take further steps to cope with the problem. Putting more money into circulation should also stimulate consumer spending, bringing some short-term beneficial effects on production and unemployment—although many argue it will eventually lead to long-term adverse effects.

Some economists say interest rates must rise higher this year despite Government requests and action to persuade the financial sector to lower them. Although inflation — which went above 18 per cent last year —has pulled interest rates upwards, bank and similar institutional rates have generally been maintained at 3 per cent or more below the current inflation level.

For example, in September 1980, with inflation at around 17 per cent, the weighted average interest rates for trading banks' term loans was 14.05 per cent compared with 12.27 per cents a year earlier.

This year the Government has seen the first results of its anti-inflation policies, with a drop of about two per cent in the inflation rate. It is anxious that interest rates should also decline in relation to this fall.

Some advisers believe that if a downward movement in interest rates can be initiated it will have an accelerating effect on itself because lenders will note the trend and refrain from demanding higher interest rates when renegotiating lending agreements.

The Reserve Bank has provided an important hedge against inflation for small investors through its inflation-proof bonds. Investors receive a small running annual interest payment and when they cash in their bonds they receive a tax-free payment equal to the increase in the inflation rate between the times of purchase and surrender.

Limitation

Investors are limited to a maximum deposit of NZ$5,000 per annum. Despite this limitation the Reserve Bank has gathered in about NZ$215m.

Competition among the five NZ trading banks became fiercer during the past year, particularly in the area of retail deposits, where banks made a strong drive for business.

New Zealand bankers still look back to 1976 as the start of the new era of freedom from the restrictions and controls which had constricted the industry for more than three decades. It took some time for banks and bankers to become *fully confident and experienced* in this new atmosphere but now they are much more at home and go after new business in a much more aggressive manner.

Trading banks will become even more competitive through Government action on building societies (mortgage banks) last year.

The savings banks, mainly operated by the banks, had complained at what they considered unfair competition from the building societies and their arguments found some acceptance because the building society reserve asset ratio has already been raised from 5 per cent to 8 per cent and will be increased progressively each year to 15 per cent. Savings banks have to maintain 84 per cent of their deposits in Government securities, often at a return of no more than 3½ per cent.

Projects

New Zealand banks, through their overseas partners or *parent companies, are anxious* to be involved in the financing of the country's major energy projects, which will require many billions of NZ dollars for development over the next five to ten years. Agriculture is also looking for more investment to increase production and here the banks, through long involvement in financing all sectors of the industry, from individual farmers to large wool-broking firms, are in a better position to take advantage of the investment opportunities.

Investment in energy is quickening as plans for the various projects move from the planning stage to the drawing board and into the field. By 1982 the level of investment will have increased substantially and banks are becoming more active in this programme.

NZ banks now have a greater sense of internationalism than a few years ago. This attitude was encouraged *last year by the freeing* of foreign exchange controls, enabling banks to purchase forward cover for virtually any legitimate purpose.

The ability to operate internationally with more freedom has led to greater bank activity. It has also encouraged banks to move into providing corporate services for clients. Many banks now divide their activities into two spheres of operation, with branches looking after smaller clients while corporate service departments assist the major international groups and large accounts.

In 1980 NZ bank staff called their first major strike extending over a long period. They attempted to reduce inconvenience to the public while making their point to their employers by closing different banks on consecutive days.

Staff were asking for an extra 6 per cent on their salary scale as "added work value." They cited Australian banking conditions as an example but bankers claimed the two countries were not comparable. This view largely won the day, with staff settling for a 14 per cent salary increase and not the 20 per cent claimed.

Island havens

CONTINUED FROM PREVIOUS PAGE

which makes it a simple matter for banks to originate business in the U.S. and book it simultaneously through an offshore centre.

Barbados is another relative newcomer on the scene. It excluded banks from the 1965 International Business Companies Act, partly because it was apprehensive about the links with organised crime in some other centres. Two years ago, however, an Offshore Banking Act was passed.

The scrutiny of potential licencees is intense and so far there are less than a dozen international banks represented. The names are prestigious, however, and more should follow.

Advantage

Unlike several other centres in the area, Barbados imposes a modest tax on bank profits but it has the advantage of offering double taxation treaties with the U.S., Canada, the UK and other European countries. For the very smallest countries, such treaties are almost impossible to arrange since there is little compensating advantage for the partner country.

Offshore banking in the Middle East is clearly carried out under the shadow of serious political unrest. Nonetheless, the prospect of participating in massive OPEC development projects has been sufficient to tempt droves of international banks. In addition, Arab institutions have themselves been using the area to recycle petrodollar surpluses.

Bahrain's offshore banking sector was established in 1975 and, by the end of the next year, the assets of Offshore Banking Units (OBU's) already totalled $6.2bn. By last September, they had reached $33.6bn.

Roughly 65 foreign banks are represented and they must conform to reporting and other requirements laid down by the Bahrain Monetary Agency. At the same time, they are offered considerable privileges. OBU's are exempt from income and corporation taxes, as well as from local reserve requirements and liquidity ratios.

A moratorium on new licences was imposed in 1979 but it has since been lifted and the increased competition has placed pressure on profit margins. In particular, the arrival of two major Arab multinationals, the Arab Banking Corporation and the Gulf International Bank, has caused concern to Western banks.

Both banks are heavily capitalised and clearly have excellent relations with neighbouring states. It seems likely that they will be followed by other Arab national consortia the principal role of which will be to recycle OPEC surpluses.

The Channel Islands have been active as an offshore centre since the 1960s and play host to a distinguished assortment of banking names. Jersey alone has 40 licensed deposit-taking houses with total deposits of around $15bn.

Like the other centres, the islands offer tax-haven status but most banking business can be conducted more easily from London. Legislation was changed in 1976 to allow international loan operations to be mounted from Jersey but its principal role remains the booking of loans and the raising of finance for parent companies.

Healthy prospects from rapid economic growth

MALAYSIA

WONG SULONG

MALAYSIA'S low interest rates are often a source of wonderment to the foreign financiers—and a source of friction between the monetary authorities and the banks.

The country's interest rate regime has a air of surrealism about it. Theoretically commercial banks are free to quote their own rates, but Bank Negara, the powerful and conservative central bank, keeps a sharp eye on matters and frowns on anyone straying from what it considers the norm.

The norm, again theoretically, is 8.5 per cent for the prime rate, which is certainly one of the lowest in the world. But in the practice few customers qualify for this rate. Previously favoured clients now have to pay loan interest of anything between 10 and 12 per cent.

From the central bank's point of view a low interest rate is necessary to sustain the Government's policy of high economic growth within the context of tolerable inflation.

The comercial banks, particularly the foreign ones, argue that they cannot be expected to be philanthropists when the cost of their funds, especially those drawn from overseas, is well above the officially favoured prime rate.

What has been happening over the past two years is that a substantial volume of funds has been leaving Malaysia, attracted by the higher rates elsewhere. Partly as a result of such low interest rates too the Malaysian ringgit has also softened considerably against other currencies.

Until recently Bank Negara has refused to recognise the outflow of funds, but in its latest annual report, released at the end of March, it acknowledges that the problem is serious.

It admits that "several banks (had) yielded to the attraction of the offer of more attractive rates of return available in the money markets of financial centres abroad, and placed on occasions substantial amounts of funds mobilised in the form of deposits in Malaysia, thereby tightening bank liquidity to the detriment of the domestic economy."

Loopholes

At the same time "other banks adopted more subtle ways of maximising profits, taking advantage of loopholes in the laws to transfer funds mobilised in Malaysia for on-lending to finance economic activities in foreign countries."

It admits all this legal, but wants it stopped. It adds: "The Central Bank should not be placed in a position to have to remind them (commercial banks) of their responsibility to the community they serve."

Official directives on lending to the designated priority sectors—bumiputras (the indigenous Malays), small-scale businesses, food production and housing—remain irksome, particularly to foreign banks.

Last year 17 of the 38 commercial banks and 18 of the 37 finance companies failed to meet their lending targets to the priority sectors. The shortfall for banks was M$156m and M$74m for finance companies.

The penalty for the defaulters is to deposit an amount equal to their shortfall with the Central Bank at interest of 5 per cent. The rate is reduced further to only 3 per cent if the shortfall occurs for a second year. Citibank of New York is believed to be the worst hit by this penalty, having had to deposit M$40m.

Foreign banks, in particular those with only one or two branches, find great difficulty in meeting the loan targets for small scale enterprises. They simply do not have the network, time and manpower to service the small businessman.

Because of the difficulties in recovering such small loans, most foreign banks prefer to pay the penalty.

"We have regarded this penalty as a premium for operating in a politically stable country, where making money is good," said one foreign banker, "but we don't like the way this is being done."

Banks in Malaysia are indeed doing extremely well, as reflected in the very healthy earnings of the past few years and the sharp appreciation of their stocks on the Kuala Lumpur Stock Exchange. They have benfited from the rapid growth of the Malaysian economy and prospects are good.

The trend in Malaysian banking is towards a gradual relaxation of supervision by the central bank to encourage greater competition and innovation. But at the same time there is a growing Government and Malay involvement in the ownership and top management of the banking industry.

The country's two largest local banks—Bank Bumiputra and Malayan Banking—are government-controlled, while Malays now hold substantial stakes in virtually all the other local banks. This contrasts sharply with the situation in the 1960s, when there was hardly any Malay stake in the industry and the biggest banks then were incorporated overseas.

Links

These foreign-incorporated banks still account for more than 40 per cent of total deposits, and with their international links get the best clients.

Foreign banks have also successfully staved off "Malaysianisation," and banking is perhaps the only sector where foreign ownership remains untouched by the Government's new economic policy, which dictates a gradual scale-down of foreign ownership to 30 per cent by 1990. Plantations and Mining, once foreign preserves, are now largely in Malaysian hands.

The price foreign banks have to pay is less favoured treatment by the authorities. Unless they restructure their Malaysian operations they will not be allowed to open any new branches. This restriction they can live with, but they fear more official and political pressure in the coming years to make them conform to the new economic policy.

Business carries on as usual despite resignations

SINGAPORE

KATHRYN DAVIES

IT HAS been a turbulent year so far for Singapore's banking community. The country's monetary authority, MAS, roughly the equivalent of a central bank, has been rocked by resignations and divested of much of its powers by the Government. Personal contacts between foreign bankers and senior MAS officials, carefully nurtured over the years, were abruptly severed. Foreign banks looking to upgrade their status—from, say, a representative office to an offshore branch—were suddenly unable to find anybody to talk to.

However, although the precise reasons for the resignation of MAS managing director Michael Wong Pakshong, together with most of his senior staff and many junior and middle management personnel, remain unclear, the word is out in the banking scene that it is business as usual (almost). Partly this is because many of the new appointees to the monetary authority and to the Government's new investment corporation are already well known. The new head of the MAS international department, with which foreign bankers normally negotiate, is Mr. Lim Ho Kee, until recently vice-president of Morgan Guaranty Pacific in Singapore and currently seconded from the Overseas Union Bank (OUB), one of the big four local banks.

Long promised

The man charged with responsibility for the launching of the investment corporation is Mr. Yong Pung How, seconded from the Oversea-Chinese Banking Corporation (OCBC), another of the Big Four. There is also a feeling that long-promised legislative changes, while held up by the MAS reorganisation, will prove attractive to the financial community.

In any case foreign banks have something else to worry about—declining profit margins. In 1980 39 of them together made only S$50m (£25m) in aggregate—although total assets of offshore banks rose by 58 per cent to S$40bn. This is a reflection of increased costs, particularly the government-imposed pay rises of the past two years, in the region of 20 per cent, and the sharp increase in the price of property in Singapore.

Some banks also experienced a setback in profits as a result of the violent fluctuations in exchange rates in the late 1970s. Foreign exchange dealing, a major component in banking activities in Singapore (average daily turnover around U.S.$5bn a day and rising) caused a lot of burnt fingers in all but the most competent dealing rooms.

The situation for local banks is somewhat different, although the Big Four all made substantial profits last year. OCBS reported a 50 per cent increase in group profit to S$94.3m (£44.9m) compared with a 27 per cent increase in 1979. The smallest member of the four, Oversea-Union Bank, also announced a 50 per cent jump in profits for 1980, compared with 17 per cent in 1979. UOB recorded a 52 per cent increase and the Government-owned Development bank of Singapore (DBS) recorded an increase of 45 per cent to S$119m before tax.

All the local banks plan further growth. DBS plans a radical restructuring of its activities to separate banking from its property and finance activities. The property operations have already been taken over by a wholly owned subsidiary; the banking sector will again be sub-divided into areas of greater specialisation—wholesale banking, consumer banking, international banking and investment banking.

Despite denials by DBS it seems likely that its original role as a development bank will not play a major part in its corporate strategy this decade. The bank also plans to open more branches overseas and is showing interest in the West Coast of the U.S.—as is UOB, which plans to buy a bank there. If successful UOB would be the first Singapore bank to buy an American bank, as opposed to setting up a branch in the U.S. UOB already has agencies in Los Angeles and New York, and its overseas business accounts for roughly 40 per cent of group earnings.

Decline

However, not all analysts take an optimistic view of local bank earnings in 1981. A report by Laurence, Prust and Company predicted that the average growth in profits would decline to around 30 per cent this year from the approximate average of 50 per cent last year. The reasons for this include declining interest rates and profit margins caused by increased competition. Last year all the banks benefited from what Laurence, Prust called "widening margins during a period of rising interest rates" and in some cases from "the availability of additional funds for investment following the respective rights issues." In 1980 DBS, OUB and UOB raised more than S$300m through rights issues, S$202m more than in 1979.

Unlike their offshore counterparts Singapore's merchant bankers have been recording record profits, thanks in part to their greater freedom of manoeuvre under the Companies' Act. Though they are equally affected by narrowing profit margins in the Asian dollar certificates of deposit market, merchant banks expect to benefit from the anticipated improvement in this sector during the company year.

The London-based merchant bank N. M. Rothschild is currently involved in helping the Singapore Government to reorganise the international department of MAS as well as advising on the Government-owned investment corporation.

Moves to reinforce Colony's role as financial centre

HONG KONG
KEVIN RAFFERTY

THE BANKING SCENE in Hong Kong has been stirred over the past few months by a number of new debating issues and a lot of controversy. The biggest recent talking point has been whether the Hongkong and Shanghai Bank will expand its empire into Scotland. Perhaps more lasting and important to the territory itself are the changes which the authorities have set in train to rationalise and strengthen Hong Kong's position as an international financial centre and as THE centre in Asia. Not everybody agrees that the changes will be beneficial.

A good deal of feeling has been aroused over what are seen as official British pressures against the Hongkong Bank in its bid for the Royal Bank of Scotland. When the news of a revised Standard Chartered offer for the Scottish bank came in the shape of a joint announcement by the two boards that they had agreed the bid, there was speculation in Hong Kong as to what pressures the Bank of England had exerted behind the scenes.

It is a particularly delicate issue in Hong Kong. After all, the territory is a British Crown Colony, with the Queen as its Head of State and a former Foreign Office diplomat as its Governor reporting to Whitehall. Hong Kong citizens hold a British passport and it already rankles that this document confers what is regarded as "second class citizenship."

So for the British authorities to intervene against a bank operating from what Britain regards as British soil — and incidentally with the Royal coat-of-arms on the notes it issues as the colony's main legal tender—to prevent it making a British acquisition would be regarded as calling into question the whole value of ties with Britain.

For the moment bankers are maintaining a very British stiff upper lip and saying that the issues are "commercial." But there is a resigned feeling in some quarters that there is one law in Britain for the British and another for the colonial British.

For the Hongkong Bank the move to take over the Royal Bank of Scotland is logical. Its acquisitions of the British Bank of the Middle East and of the Marine Midland in the U.S. have given it important footholds in those parts of the world and a growing commanding presence on the international banking map.

But it still lacks more than a handful of branches in either Europe or Japan. Though Japan is slowly opening up its financial sector, it will not for a long time become open enough to permit a foreign bank to take over a big Japanese one. Moreover, control of a bank in one European country could be used as a vehicle for movement right across Europe.

Some critical voices have been raised in Hong Kong itself about the Hongkong Bank's plans. They ask why the bank is abandoning its traditional base. The bank replies that the opposite is the case. The new multi-storey headquarters building planned for Hong Kong is a reflection of the bank's commitment to the territory; the worldwide acquisitions are a tribute to the growing importance of Hong Kong in the world.

The Hongkong Bank in fact stands to gain from measures being introduced in Hong Kong to rationalise the traditional banking structure. The Financial Secretary, Sir Philip Haddon-Cave, has been concerned about the rapid growth of registered deposit-taking companies and the ways they threatened to undermine the banking business as well as fuelling the already rapid growth in money supply.

Variety

Deposit-taking companies (DTCs) cover a variety of institutions: foreign banks which cannot get a local bank licence because of the moratorium; banks anxious to get round the interest rate agreement and secure a bigger share of local dollar deposits; internationally known merchant banks; local finance and hire purchase companies; virtual pawnbrokers.

But their recent growth has been phenomenal. In numbers they were springing up at the rate of more than one a week over the past year until the Government called a halt to registrations pending its new measures. In deposits they have grown faster than the banks. Total DTC deposits grew fourfold to HK$ 40bn in the two years to the end of 1980, while the non-bank deposits of licensed banks expanded by only 49 per cent to HK$ 87bn.

The big local banks complained about the plundering of their traditional sources of funds. A deposit-taking company, they argued, could set up shop with just a backstreet office, a desk and a chair, whereas they had extensive and expensive branch networks to support. By paying higher rates than set by banks in the interest rate agreement the DTCs were able to secure funds that would otherwise have gone to the banks; indeed a number of DTCs were set up by banks which found it difficult to attract deposits when bound by the official interest rates.

In 1981 Sir Philip bowed to the banks arguments. He said he was concerned to "ensure that an effective interest rate agreement is available as an instrument of monetary policy." Secondly, he added, he wanted to "protect the smaller deposit-taking companies from cut-throat competition which would, in turn, undermine the general stability of our monetary system at least for a period. A continuing erosion of the banks' short-term deposit base would, sooner or later, lead to a collapse of the interest rate agreement and a competitive assault by the banks."

At the end of April the Financial Secretary tabled legislation to change the structures and curb the secondary banking sector. The effects of the measures, assuming that they go smoothly into law, would be:

● to prevent registered deposit taking companies from accepting deposits of less than three months' maturity (the amount of the minimum initial deposit will remain the same at HK$50,000);

● to create a new class of licensed DTCs, which will be able to take deposits of any minimum paid-up capital of the maturity provided the initial sum is at least HK$500,000 and the body is $HK100m—in effect the licensed DTCs will be merchant banks:

● to leave the short-term traditional banking business to the banks, which will be bound by the interest rate agreement.

In this way the authorities hope to restore order and reduce the risks of chaos and cut-throat competition for business. There are various obvious loopholes which the authorities will try to plug through the legislation and through careful policing. The risks of the law being undermined by licensed DTCs are less because they will be scrutinised carefully before they are granted licences.

Sir Philip perhaps dropped a hint that the authorities were thinking of a small number of licensed DTCs when he said that under capital considerations alone only 12 of the present 342 registered DTCs would meet the new requirements. He laid down six criteria under which applications for licences would be assessed, mainly based on respectability and a proven record of "steady growth and prudent trading for at least three years." A number of well-known names in the merchant banking world have let it be known that they have difficulties in raising their capital to meet the requirements for a DTC licence.

In this way Hong Kong hopes to be able to retain its place as an international financing centre, attractive for merchant banking, while keeping the domestic banking market under control. Indeed there was a suggestion in the February budget (which has not since been taken up) that the interest withholding tax on foreign currency deposits which has helped to inhibit Hong Kong's growth as a centre for funding of internationally syndicated loans, as opposed to the syndication in which the territory is strong, might be relaxed.

Bedevilled

However, discussions of the dropping of the tax have been bedevilled by conflicts of interest between the officials of the Government's finance wing who are concerned to improve Hong Kong's international financial reputation and those of the revenue wing anxious to protect the colony's earnings.

Another issue which goes hand-in-hand with new arrangements for DTCs would be relaxation of the moratorium on the granting of new bank licences, especially as some banks have set up DTCs on falling foul of the moratorium. This again was referred to in the budget, but was neglected when the amendments to the banking and DTC laws were going through their second reading.

The new arrangements for domestic banking in Hong Kong have generally met with the approval of the established banks—especially the Hongkong Bank, which with its subsidiary the Hang Seng Bank has more than half of the local dollar deposits. But they have upset some of the foreign banks and also some of the smaller Hong Kong banks which see the new deal as a coup carried out by the Hongkong Bank.

It is difficult for any newcoming bank to get much of a foothold in Hong Kong, especially in view of the restriction of newcomers to a single branch. Not only is there competition from the Hongkong Bank which has a branch on nearly every important street corner; the growing involvement of the Bank of China and its associate banks.

Some researchers say that the Chinese banks may have close to 40 per cent of the deposit base in Hong Kong thanks to a rapid growth of about 35 per cent a year recently compared to an overall growth of just over 20 per cent.

Since early this month the dissident banks have had a new forum through which to make their grievances known. This is the Association of Banks, membership of which is now compulsory upon holding a banking licence. Bankers, like a number of Americans who believe that the way to tackle the DTCs would have been to free the banks to go into competition, will now be pressing to make their views known.

The Association of Banks still bows to the predominance of the Hongkong Bank, the Chartered Bank (as the other Hong Kong note issuer) and the Bank of China, all of which have permanent seats on the managing committee and the consultative council. But it allows for election of other members of the committee and the council.

It is unlikely that the Financial Secretary—who still retains the all-important power that the Committee can set interest rates only "after such consultation with the Financial Secretary as he shall consider appropriate"—will yield to free competition in interest rates paid to depositors. But the dissident bankers will be able to make their views known and to lobby for changes in banking in Hong Kong. As one of the established banks' executives said: "Banking in Hong Kong is going to become a lot more lively as the 1980s advance."

Gulf typifies drain on local currencies

ARAB WORLD
DUNCAN CAMPBELL-SMITH

MANY ARAB countries, and particularly those in the Gulf, continue to be plagued by a shortage of local currency in their economies. A primary cause of this ostensibly puzzling phenomenon is the high level of activity in retail banking.

The banks have been drawn into over-lending by a huge private sector demand for loans and overdraft facilities which has been dangerously inflated by the attraction of borrowing cheaply in the home currency to fund deposits yielding a handsome margin in a foreign currency, primarily the dollar. The overlending and subsequent sales of the domestic currency for dollars have resulted in a chronic illiquidity of the local money supply.

In societies where businesses big and small are both dominated by family interests, it is generally not a practical proposition for the banks to attempt to identify and restrict—even if they wished—the loans which are fuelling this arbitrage activity "Retail" operations in many cases cover individual and corporate customers and both alike are indulging in what amounts to the exploitation of an inherently vulnerable financial system.

Haemorrhage

Throughout the Gulf exchange rates are more or less pegged against the dollar and interest rates against traditional social norms, which means an official ceiling on lending rates of 10 per cent or less. Trying to square the circle by imposing both at the same time has exposed the system to enormous pressures ever since dollar rates shot up in late 1978. The absence of any foreign exchange controls has inevitably meant a serious haemorrhage in the domestic supply of every Gulf currency.

This has given rise to an unusually political environment in which the region's banks must operate as the intermediary between their customers and monetary authorities who, for their own good reasons, are determined to preserve the present system in the teeth of the most adverse international conditions.

But the authorities do now take a realistic view of the problem. There is less criticism today of the bank's retail operations as a root cause of arbitraging—a classic case of shooting the bad news messenger. Instead central banks have developed in many countries reasonably effective tools to mitigate the illiquidity which overlending can cause.

That retail banking has continued to expand and develop in these circumstances reflects the importance of the authorities' assistance. Indeed many Arab central banks find themselves now fulfilling a structural rather than supervisory role in the financial system. This may yet carry with it real dangers hardly less destabilising than private sector arbitraging, as one or two unduly arbitrary measures by central banks in the Gulf over recent years have shown.

The essential task for the authorities is to decide at what level of illiquidity to create additional money—and how to inject it into the system. In Saudi Arabia the money supply relies almost entirely on government expenditure. In the United Arab Emirates and Kuwait, government expenditure is augmented by property refinancing and generous land purchase schemes. Both these countries and Qatar also successfully employ the "swap" mechanism pioneered by Bahrain's Monetary Agency and involving short-term reversible sales of the local currency by the central bank to the commercial banks in exchange for dollars.

Such methods have generally succeeded in sustaining more stable money market conditions than prevailed in 1978-79. But they have not prevented rates in the interbank markets from rising to levels which at 12-14 per cent, would have been politically unacceptable only two years ago. The significance of these high rates varies rather from country to country depending upon the nature of the natural deposit base—and provides a useful key to important trends in the retail sector.

In Saudi Arabia, for example, the effect of high interbank riyal rates on the banks' funding operations is to an important extent offset by the fact that, for social and religious reasons, a substantial part of their customer deposits carry non-market rates, typically 6-8 per cent and often even less. In fact so comfortable has this funding base been in the past and so alien has been the concept of strictly market rates that a proper interbank market does not exist in Saudi Arabia even today. It does exist, though, in Bahrain where the rates are far higher and strongly influenced by those available on dollar deposits.

Rate-sensitive

The latter market has been markedly more rate-sensitive over the last year, reflecting the absence of any surplus liquidity in riyals. Advances to customers almost doubled in 1979 against a meagre increase in deposits. Last year's growth did nothing to remedy this, leaving (in the latest available figures) SR 34bn of claims against the private sector and SR 46bn in demand and time deposits. Strict cash reserve requirements amounted to about SR 10bn, accounting for most of the difference.

The Kingdom's singular deposit base can be linked directly to three principal banking trends. First, a remarkable expansion is taking place in the branch networks of all nine Saudi banks. This growth has got off to a very late start and the banking sector is still tiny in relation to the size of the economy. But with the incentive of tapping a huge pool of cheap deposits—and encouraged by the authorities who now accept the need for retail services at every level—the banks are rapidly extending their activities into provincial cities and towns as well as the suburbs of Jeddah, Riyadh and Al-Khobar.

Second, Saudi customers who receive non-market yields on their deposits—and there is a rapidly growing awareness of this relative anomaly—do not expect to have to pay market rates on their loan facilities. It is therefore impractical for the Saudi banks to charge interest on the normal marginal pricing basis.

This places a premium from the banks' point of view on developing whatever ancillary business the customer can use. In a traditionally unbanked economy the scope is enormous within a retail sector defined as embracing thousands of small businesses with the most basic cash management needs as well as international trade financing requirements.

This is arguably the most significant retailing development in the Middle East for some years in that it may be a critical catalyst in the modernisation of the whole Saudi economy—but it is a mammoth undertaking which has only just really begun.

A third effect of the riyal deposits structure, now that the Saudi banks are aspiring to control an active retail sector, is that the off-shore banking units in Bahrain are finding it increasingly difficult to compete in direct lending. Their funding relies almost exclusively on

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Changes aimed at fostering broader approach

SOUTH AFRICA

BERNARD SIMON

PUBLIC APPEARANCES and newspaper interviews have in the past been rare events for governors of the South African Reserve Bank. But things have changed since Dr. Gerhard de Kock took over the job last January.

Dr. de Kock's eagerness to spell out to private bankers and to the public why monetary policy is currently being tightened, what the authorities are doing to curb South Africa's high inflation rate and why business activity is slowing down is one symptom of the far-reaching changes now taking place in South African banking, both in the public and private sectors.

If there is one common thread through the changes, it is that the banks, from the Central Bank to retail institutions, are becoming more consumer-oriented.

From a purely technical point of view, there is not much wrong with the banking system. South Africa has about 50 banks, including a dozen merchant banks and several specialising in other fields, such as consumer finance and industrial projects.

The banks offer a wide range of services, including short-term credit and medium- and long-term financing. They play a leading role in structuring corporate mergers and take-overs, and in leasing, instalment credit and foreign trade financing.

The largest bank is Barclays, 60 per cent owned by the UK-based Barclays Group. Its assets totalled R8.7bn (£5bn) at the end of last year, and it has almost 1,200 branches. Next in line is Standard, a Standard Chartered subsidiary, with assets of R8bn.

Barclays and Standard between them account for two-thirds of total cheque deposits and over half of non-instalment advances. Their combined share of all deposits, including those with building societies, is 35 per cent, and they account for 57 per cent of all instalment lending.

The next biggest banking groups are Nedbank (assets R4.7bn), Volkskas (R3.8bn) and Bankorp (R3.5bn). Bankorp is a major force in leasing and hire purchase, while Nedbank, which has a relatively small branch network situated mainly in the cities, last year became the first South African bank to reach a pre-tax profit of R100m.

About 20 international banks—half of them German and Swiss—have representative offices in Johannesburg.

One area where South African banks have lagged behind their foreign counterparts, and even local building societies, is in facilities for electronic funds transfer. Standard last month became the first to introduce automated tellers. Barclays is believed to have similar plans.

Despite their technical expertise, the bank's service to their customers has left much to be desired. All the major clearing houses belong to a cartel (politely known as a Register of Co-operation) which has laid down minimum bank charges and even standardised opening hours for the past half century.

Blunted

Their competitive instincts have to some extent been blunted by stringent controls imposed by the authorities in Pretoria. Quantitative credit ceilings were lifted only last August. Large banks must hold low-yielding liquid assets equal to no less than 58 per cent of their short-term and 35 per cent of medium-term liabilities.

The exchange rate of the rand, supposedly in a managed float since early 1979, is in fact tightly controlled by the Reserve Bank, which also sets forward margins.

Most important of all, the the Reserve Bank, as virtually the sole arbiter of interest rates, has until recently been unwilling—and to some extent unable—to allow them to follow market forces. Its role in the money market has been small, and it has compelled the commercial banks to hold their prime overdraft rates in a narrow band between 2.5 and 3.5 percentage points above its discount rate, known as bank rate.

Many of these restrictive rules and practices have recently been relaxed, and in some cases completely abolished.

Dr. de Kock is credited with initiating most of the changes. He is supported by a new breed of private sector bankers eager to compete more aggressively with each other and with other financial institutions.

Dr. de Kock is chairman of a commission of inquiry into monetary policy, whose first report—on the foreign exchange markets—published in January 1979, signalled the beginning of the shake-up in South African banking.

Proposals in the report have resulted in important—though in the view of some bankers, not sufficiently far-reaching—changes in foreign exchange practices. Instead of quoting a fixed 50-point spread of Forex transactions, banks are now free to compete for business. The usual spread is 1 to 12 points, although it can be as low as 2 or 3 if a bank wants the business.

Another milestone was the abolition of deposit rate control. The controls were imposed mainly for the protection of building societies to enable them to contain increases in the politically sensitive mortgage rate. Ironically, since the controls were scrapped, the societies have been the major force in pushing up deposit rates. A one-year deposit currently offers over 1 per cent, compared with 6 per cent a year ago.

Soaring deposit rates and rising demand for credit have strained the controls of bank lending rates. Although Dr. de Kock has so far not heeded bankers calls to break the tight link between Bank (Cap B) Rate and Prime Overdraft Rate, he has allowed lending rates to move up rapidly and frequently.

Prime rate is now at 13 per cent, compared to 9.5 per cent at the beginning of the year. Equally important, the authorities have sanctioned a big jump in maximum lending rates, which now stand at between 18 per cent and 24 per cent, depending on the size and type of loan.

The de Kock commission's final report will probably be released in the second half of the year, and its main recommendations are expected to be outlined in the main budget on August 26.

Meanwhile, Dr. de Kock and his colleagues have begun to create a climate in which the private banks are losing their competitive inhibitions.

Although the cartel among the clearing banks still exists, it is fraying at the edges. One example is the new system of bank charges, introduced in mid-May.

These charges replace an archaic system in which the banks levied arbitrary ledger fees and commissions on cheques drawn in one town and deposited in another.

Consolidated

In future, the charges will be consolidated into one service fee charged on all customer-generated debits. This fee varies according to the type of account and its location, but averages about 0.2 per cent per debit, with a maximum of R10. The other new element is a handling fee for cash deposits over R200.

Although the banks agreed among themselves on the structure of the new charges system, signs have already emerged that they intend using the charges as a means of generating new business.

Some are to reward customers maintaining large current account balances with lower-than-average service fees. In this way, they have come one step closer to paying interest in cheque accounts. A move consistently vetoed by the cartel.

At least one bank is reported to be prepared to waive the controversial cash handling charge in return for new business.

For foreign-owned banks, the relaxation of government controls is especially important. In terms of an amendment to the Banks Act passed in the early 1970s, all foreign-owned banks operating in South Africa must reduce their overseas shareholding to 50 per cent by 1986.

Barclays and Standard were clearly the main targets, but the provision applies equally to several others, notably Hill Samuel, French Bank (in which Banque de L'Indochine et de Suez is the majority shareholder) and Citibank.

Controls no barrier to success

NIGERIA

IAN RODGER

NIGERIA'S BANKING industry has survived some major upheavals in the past few years and is now looking forward to profiting from a relatively stable political, economic and regulatory environment.

The country appears to be embarking on another of its periodic economic booms as oil revenues have held up better than expected and foreign reserves are at record levels of more than £41bn.

The 1981 federal budget calls for £10bn of spending in the current year, three-quarters of it on capital projects. An additional £2.25bn has been carried forward from last year's budget.

The country has also embarked on a £68bn development plan to 1985.

Inflation has been running at about 20 per cent a year in the urban areas and businessmen worry that the developing boom will lead to the same sort of nightmare shortages and transportation bottlenecks that sent prices soaring in the mid-1970s. But there is also hope that the Government, aware of the dangers, will take the necessary steps to avoid the worst.

Banks are still recovering from several important changes in the 1970s but—except for the quality of customer service—no serious damage to the system seems to have been caused.

The most important change in Nigeria in the 1970s was, of course, the rapid increase in the value of the country's large oil production. This transformed the country's development prospects and, as a side-effect, vastly increased the number of opportunities for banks to finance capital projects and trade.

Not surprisingly, many hitherto unrepresented foreign banks set up for business—usually as merchant banks—and competition became very lively. The number of commercial banks in the country has grown from 12 to 20 in the past decade.

However, at the same time, the Government was beginning its "indigenisation" programme to ensure that Nigerians participated in the country's main industries, both as owners and managers

Banks did not escape this policy and, starting in 1973, the Government ordered that the Ministry of Finance should take 40 per cent share stakes in the country's three largest banks, First Bank, then a subsidiary of Standard Chartered Bank, Union Bank, then a Barclays Bank subsidiary and United Bank for Africa, an affiliate of Banque Nationale de Paris.

Executive

In 1976, the indigenous ownership policy was expanded considerably, requiring that Nigerians take 60 per cent of the equity of most commercial and industrial companies and that the Ministry of Finance should hold 60 per cent stakes in all banks.

In 1979, the outgoing military Government took a further step, requiring that Nigerians take executive control of all banks.

Meanwhile, the banks have also had to contend with an increasing number of guidelines on their lending operations. For example, large banks are allowed only a 30 per cent expansion in overall lending a year while those with under N100m (£80m) in assets may grow at 40 per cent.

Lending and borrowing rates are closely circumscribed: currently lending rates can vary from 7.5 per cent to 11.5 per cent, deposit rates from 5 per cent to 6.5 per cent.

There are also strict guidelines on sectoral lending to favour industrial development and discourage the financing of imports.

Still, the banks have remained highly prosperous, except in 1978 when the sudden oil glut cut deeply into the country's foreign exchange reserves and forced a policy of severe restraint.

Total assets of the commercial banks in 1980 were N15.2bn compared to N1.2bn in 1970. The five merchant banks' assets amounted to just under N1bn compared to a negligible figure a decade ago.

Profits tend to be very high. For example, in the year to September 30, Union Bank, in which Barclays retains a 20 per cent stake, reported a 53 per cent jump in pre-tax profit to £28m. Return on shareholders' equity after tax was 25 per cent.

This sort of success continues to attract more foreign banks to the country, even though the Ministry of Finance is no longer interested in buying stakes in new banks, thus forcing them to find other Nigerian majority partners.

Most state governments are also setting up banks if they have not already done so. Some observers expect up to 10 new state banks to be established this year.

There are also increasing opportunities for foreign banks to get involved in Euro-financings. Nigeria is pressing ahead with a £1.9bn project to build a new federal capital at Abuja in the centre of the country and has several other large projects in the works that are beyond the capacity of the domestic banking system to finance.

For all its activity and growth, the Nigerian banking system operates within a closed and tightly controlled monetary system.

In the early 1970s, the Government was understandably suspicious of the objectives of the banks' expatriate directors and owners and sought to make sure their actions were in Nigeria's interests too.

Now that the management of banks is firmly in Nigerian hands, the restrictions seem to be less necessary while the distortions they produce in capital markets often work against the Government's goals

The prices of equities, for example, have to be tightly controlled by the Nigerian Stock Exchange to prevent an absurdly wide yield gap developing between equities and fixed income securities.

The result however, is that no company will raise money through the stock market if it can possibly avoid it—and banks, operating within a tight band of allowed lending rates, have no incentive to "fulfil the Government's wish that they lend to risky industrial ventures.

Gulf currencies

CONTINUED FROM PREVIOUS PAGE

the more expensive Bahrain interbank market and their future riyal business seems likely to concentrate more and more on merchant banking activities, especially the provision of letters of guarantee for international companies working in the Kingdom.

In Kuwait high interest rates have had a more direct impact than in Saudi Arabia because the banks, whose aggregate loans are still 120 per cent of their deposits, are more dependent upon their interbank market. The cost of funds here was 8½ to 11 per cent in mid-May—down from the 13-14 per cent levels of last autumn but still uncomfortably high given a maximum lending rate of 10 per cent.

The banks are being asked to wean their customers away from overdrafts in favour of medium-term loans but this has not met with any conspicuous success so far. A more important trend in customer preferences is towards the use of credit cards. The National Bank of Kuwait bought the Diner's Card franchise in January 1980. Domestic operations manager Mr. Faisal Al Radwan notes that the business's turnover has doubled since then and he believes it symptomatic of a general trend in Kuwait away from simple cash transactions.

This may provide opportunities for the banks to divorce a growing portion of their retail business from those areas where the official regulation of rates applies. This would let higher rates into the retail sector through the back door, almost as they have entered the corporate sector in Kuwait via front-end fees and compensating balances which increasingly produce a cost of borrowing more related to the bank's cost of funds than to legal interest rate limits.

The encroachment of market forces in such ways has certainly prompted a continuing reassessment by the authorities of their traditional position. A draft law now under consideration in the Kuwaiti Ministry of Finance would introduce a new era of tiered ceiling rates which would relate more closely to conditions in the wholesale banking sector and allow a greater flexibility to respond to the international monetary climate.

A broadening of the retail market as in Saudi Arabia and changes in its structure as in Kuwait are themes echoed everywhere in the Gulf—and they are similarly associated in each country with the shadow thrown over traditional financial practices by the behaviour of the dollar and the management of the U.S. economy beyond it. If this causes discomfort—and sometimes seems hard on Arab governments whose management of their own domestic economies might have deserved better—at least banking practices are emerging which might be more appropriate to the technological societies these countries all aspire to be.

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Trade finance shoots up despite new policy

CHINA
COLINA MACDOUGALL

DESPITE THE tough new "readjustment" policy announced last January and the gloom in the West over prospects for selling capital goods to Peking, China's banking sector is consolidating as never before. Foreign business — the prerogative of the Bank of China, Peking's trade bank — has expanded to keep pace with the country's much increased overseas commerce, while inside China the prestige of the People's Bank has grown because it plays a crucial role in controlling inflation.

Eleven foreign banks — including three from the U.S., two each from Japan and Italy, and one apiece from Britain, France and Hong Kong — have opened representative offices in Peking, mostly in the last few months. The big deals — like those for steel and chemical plant, which since January have been threatened with the axe — may no longer be forthcoming. But smaller contracts are in the pipeline and the financing of trade, always the major part of China's banking business, is shooting up.

Specific

Last year China's total trade rose by nearly 24 per cent to $37.5bn, with imports slightly exceeding exports at $19bn, an increase of over 19 per cent. The Chinese have said they have every intention of expanding trade despite "readjustment," though the focus will shift from huge turnkey projects to specific items of equipment and medium-sized contracts.

The new trend in small but steady deals is exemplified by the use to which the British ECGD deposit facility has been put. Of the $1.2bn of credit put at the disposal of the Chinese by a group of ten British banks and channelled through ECGD at the end of 1978, over $553m has been taken up. While in the euphoria of the time this would have been seen as disappointing, it represents a steady and possibly wiser development. Only two large contracts have been financed under it (the 1978 Davy sale of two chemical plants at $55m and the 1979 $40m Marconi Avionics deal).

There is now a steady trickle of smaller deals for items like textile or printing machinery. Officials of the Midland Bank, which participated in the deposit facility, have specially toured branches of the Bank of China to brief them on exactly how it works. The availability of the credit has already been extended twice and probably will be again at the end of this year.

During this comparative lull the Bank of China is cautiously laying the foundation for future business. In September last year it published new articles of association which outlined its activities and defined it as an entity state-owned (no longer joint state-private, as it was) but separate from the state. It is now officially authorised to handle trade finance, interbank deposits, remittances, foreign exchange business, participation in loans and the issuance of bonds. Its capitalisation was boosted from Yuan 400m to Yuan 1bn. These formalities will not alter its activities but they give it legal status.

In 1979 the Bank of China participated in several loan syndications, and followed this last year with involvement in bond issues. One of these was in London (the Midland Bank floating rate note issue) and two in the Far East. One was issued by Credit Lyonnais, lead-managed by Nomura Securities, and the other by the Longterm Credit Bank of Japan, lead-managed by Daiwa Securities. Both are for eight years, listed on the Singapore stock exchange. The first is for $30m, the second for $25m.

This participation is generally seen as a training exercise for China's bankers. It also enables foreign bankers to learn something of Peking's ways, an advantage shared by the in-house study courses Midland Bank and others have run for Chinese students. As new branches open up (and the New York Bank of China branch is expected to start business before the end of the year) China's needs for expert bankers become more pressing.

In the present climate of retrenchment, the Chinese have shifted their search for funds away from expensive commercial borrowing to soft loans. The 1979 aid loan from Japan ($1.5bn, at 3 per cent with a ten-year grace period, to be allocated over five years) and the low-interest Belgian loan (BFr 300m a year interest free in 1980, 1981 and 1982) are cases in point. The Chinese have proposed that the Japanese provide low-interest credit (using part of the 1979 aid loan) to enable them to avoid cancelling the steel and chemical plant at present under threat.

In March the Chinese were able to draw an International Monetary Fund (IMF) loan of 450m SDRs ($550m), plus a further draw-down of something over 400m SDRs. This followed China's resumption of IMF membership last year and a trip in July 1980 by an IMF team to China.

Cheaper

In yet another innovation the Chinese plan a Yuan 10bn (£22m) bond issue in Japan in July. For Peking this would be cheaper and possibly more useful than a Eurodollar loan which at present would attract higher rates of interest. Yen interest rates are low compared to other currencies and yen in any case are needed by Peking to finance its trade with Japan.

The extension of the Bank of China's function in the foreign field is paralleled by the growing power of the banks at home. It is fuelled by the concern at rapidly rising prices which the Chinese lay at the door of their overspending on capital construction. This led them into a budget deficit of Yuan 17bn in 1979, originally to be run down to Yuan 8bn in 1980 and Yuan 5bn in 1981. In the current "readjustment," however, Vice-Premier Yao Yilin announced in February, they are determined to eliminate the 1981 deficit completely.

At the end of 1979 the president of the People's Bank, Li Baohua, pointed out that the demands of local officials were forcing the banks to push more money into circulation. This has now come home to roost with an inflation rate of something like 6 per cent last year. It is probably well into double figures now.

In January the People's Bank decided to withdraw currency from circulation but at a conference in April it was clear little progress had been made. Bankers were still channelling too much credit to industry instead of to the consumer goods and farming sector.

As part of its effort at currency management, the People's Bank last year increased interest rates on deposits. As a result deposits rose in the first quarter of this year to Yuan 44.7bn from Yuan 39.7bn in December 1980, itself well up on 1979. But the increase has not solved the problem, partly because the banks have been continuing to make loans.

In January this year the central government announced a new tactic. Bonds were issued for sale to units across the country to mop up provincial funds and make good the deficit in the central budget. By the end of March the Ministry of Finance was proclaiming these a success, but deep concern clearly remains over still-rising prices.

First hesitant steps in involvement abroad

INDIA
K. K. SHARMA

MAJOR INDIAN banks have made their first hesitant steps along the path of what is certain to be a growing line of activity for them in international finance. In consortia formed in association with a large number of foreign banks, institutions like the State Bank of India have succeeded in raising loans from the world capital markets for development projects in the country.

This is clearly a breakthrough. Until less than a year ago the Indian Government was reluctant to make commercial borrowings abroad for development projects in the public sector. Even the loans obtained by private companies were miniscule and therefore unimportant in the overall context of funding new projects approved as part of the country's development and planning process.

The mounting oil import bill and the resulting large trade deficit—the gap is expected to be more than Rs 25bn in 1980-81—has changed all that. Faced with falling foreign exchange reserves and a shortage of external financing from soft-loan agencies such as the World Bank's International Development Agency (IDA), the Government has decided that commercial borrowings are inevitable.

What remains to be decided is the extent of the borrowings. In the Sixth Five-year Plan period covering 1980-85 foreign aid and borrowings are put at Rs 50bn, or nearly 10 per cent of the total public sector outlay approved for the Plan. They could be as high as Rs 20bn in the five-year period and much more over a longer period, depending on the success achieved in negotiating the first loans.

Merchant and offshore banking is thus certain to be a growing area of operation for Indian banks. Fortunately for them, India's substantial foreign exchange reserves and a good record of debt servicing has given the country a sound credit rating abroad.

The biggest loan obtained so far is $200m for development of the Oil and Natural Gas Commission's offshore Bombay High oilfield in the Western Continental Shelf. But there have been smaller amounts raised for private groups—for example the two large Jata group members, Tata Iron and Steel Comeering and Locomotives Company (Tisco) and Tata Engineering and Locomotives Company (Telco). Gwalior Rayon, a Birla concern, has also obtained a $35m loan on the Eurodollar markets.

But the real test will come when the Government decides on the group that is to build a new 1m-tonne steel plant at Paradip in Orissa State. Davy International of Britain and Demag Mannesman of West Germany are leading contenders and both have offered attractive financial packages, mostly based on the Eurodollar market. The decision on this comes after a French consortium has already agreed to raise $650m for an alumina plant, also to be located in Orissa. Like the steel package, this is a mixture of government-to-government aid and commercial borrowings.

Both these are major projects. If things go smoothly and financing is arranged in a manner that does not prove a strain on India, the way will have been cleared for additional commercial borrowings for a wide range of projects. It is for these that Indian banks have to prepare. Fortunately, the Government's attitude towards foreign banks has relaxed in the past few years. A few new banks have been allowed to open branches and others have expanded. In co-operation with Indian banks they can be expected to play what promises to be an important role in development financing.

But banking in India is really expanding within the country itself, with the accent on the "unbanked areas." These include such "priority" (in terms of the Government's socio-economic objectives) sectors as rural areas, the backward areas and communities and the poorer sections of the population such as labourers and unemployed.

This is reflected in the remarkable expansion of branches of the 21 nationalised banks (Mrs. Indira Gandhi nationalised six more soon after returning to power last year). In June 1980 all banks together had as many as 32,419 branches compared with just 8,262 at the time of the first dose of nationalisation in June 1969. The nationalised banks account for nearly 30,000 of them.

This rapid expansion, mostly in the former "unbanked areas," is not an unmixed blessing, although it has undoubtedly brought banking facilities to large sections of the population hitherto denied them. Trained staff are difficult to find. More important, the large and rapid expansion of branches has adversely affected the profits and profitability of the banks.

Viability

There is now a growing opinion that the nationalised banks should be allowed to function on commercial lines and that their viability should not be ignored in the general interest of the progress of the Indian economy, no matter how important the Government's social and economic objectives are in improving the lot of the poor.

Yet it is also true that the Indian banks have accepted new challenges and are facing them boldly. They are blazing a fresh trail in banking and adopting revised norms for credit. Examples are the very large number of loans given to the poor without security and the "differential rate of interest" scheme for poor farmers. These are not working as well as the Government and the bankers would like but they are undoubtedly bold new experiments.

In the process bank finance for trade and industry has been sharply limited. Commercial concerns have found that they have to rely increasingly on their own resources and follow policies of more efficient inventory management merely because of the lack of working capital formerly obtained from banks.

Hence the growing demand for the relaxation in the tight credit policy. The alternative would be for businessmen to turn increasingly to the "parallel black economy," or to funds not declared for tax purposes — a rogue element which has been playing havoc with prices.

As it is the restrictions on cash credit rigorously limit credit at a time when the ability to raise capital from debentures and capital markets is confined to a few fortunate companies.

THE TOP HUNDRED BANKS

(The 100 largest banks in the world ranked according to shareholders' equity and net income—$m)

			1980				1979			
	Home country	Year end	Shareholders' equity	Ranking	Net income	Ranking	Shareholders' equity	Ranking	Net income	Ranking
Credit Agricole Group (see below)	France	31/12	6,267.18†	1	n/a		6,430.33	1	n/a	
Barclays Group	UK	31/12	5,006.75	2	888.02	1	4,089.24	2	815.63	1
NatWest Bank Group	UK	31/12	4,385.09	3	760.34	2	3,497.83	4	738.82	2
BankAmerica Corporation	U.S.	31/12	3,908.00	4	645.00	4	3,462.00	5	690.16	3
Citicorp	U.S.	31/12	3,891.00	5	507.00	5	3,597.99	3	544.19	4
Banco do Brasil	Brazil	31/12	3,588.69	6	754.01	3	3,358.48	6	381.22	7
Lloyds Group	UK	31/12	3,356.96	7	483.22	6	2,706.18	10	407.13	6
Midland Group	UK	31/12	3,304.12	8	405.75	7	2,739.26	9	436.91	5
Paribas Group	France	31/12	3,275.77†	9	292.95	11	3,080.92	7	234.65	10
Deutsche Bank	W. Germany	31/12	2,737.32	10	233.25	16	2,931.28	8	247.25	11
Union Bank Switzerland	Switzerland	31/12	2,666.31	11	184.24	27	2,550.03	11	182.01	21
Swiss Bank Corporation	Switzerland	31/12	2,458.22	12	162.17	29	2,461.76	12	161.76	25
Chase Manhattan	U.S.	31/12	2,407.71	13	364.65	9	2,026.53	17	301.48	8
Credit Suisse	Switzerland	31/12	2,336.41	14	158.98	33	2,434.67	13	154.88	27
J. P. Morgan	U.S.	31/12	2,180.40	15	367.68	8	1,959.34	19	288.30	9
Hongkong and Shanghai Banking Corporatn.	Hong Kong	31/12	2,019.76	16	279.96	12	751.73	71	205.43	17
Rabobank Group	Netherlands	31/12	1,945.35	17	249.38	14	1,849.79	21	242.98	12
Dai-Ichi Kangyo Bank	Japan	31/03	1,889.93	18	96.82	53	2,130.15	14	129.74	37
Standard Chartered Bank	UK	31/12	1,873.83	19	315.85	10	1,395.05	28	187.81	20
Societe Generale	France	31/12	1,806.17†	20	170.49†	25	1,698.70	24	171.78	22
Dresdner Bank	W. Germany	31/12	1,772.77	21	104.01	48	1,973.98	18	160.66	26
Sumitomo Bank	Japan	31/03	1,751.85	22	79.21	63	2,061.98	15	142.30	35
The Royal Bank of Canada	Canada	31/10	1,747.32	23	278.26	13	1,393.81	29	228.64	13
Fuji Bank	Japan	31/03	1,747.05	24	58.04	75	2,039.57	16	148.84	29
Manufacturers Hanover Trust	U.S.	31/12	1,708.58	25	230.18	17	1,354.95	25	211.28	16
Mitsubishi Bank	Japan	31/03	1,680.21	26	103.34	49	1,955.19	20	142.93	34
Banque Nationale de Paris	France	31/12	1,607.71†	27	197.80	20	1,475.20	26	120.57	44
Continental Illinois	U.S.	31/12	1,524.94	28	224.14	18	1,362.90	30	194.13	18
Sanwa Bank	Japan	31/03	1,503.30	29	73.80	67	1,767.82	22	130.44	41
Western Bank Corporation	U.S.	31/12	1,401.33	30	233.44	15	1,222.00	33	214.86	14
Credit Lyonnais	France	31/12	1,345.37†	31	134.80†	38	1,265.38	31	101.43	52
Bank of Montreal	Canada	31/10	1,321.86	32	223.69	19	1,056.30	49	183.17	19
Chemical Bank	U.S.	31/12	1,307.22	33	175.18	24	1,190.23	37	142.31	36
Commerzbank	W. Germany	31/12	1,276.20	34	17.27	96	1,725.54	23	82.61	64
Canadian Imperial Bank of Commerce	Canada	31/10	1,251.83	35	163.18	28	1,184.17	39	170.02	23
Industrial Bank of Japan	Japan	31/03	1,243.55	36	98.42	52	1,403.10	27	74.04	74
Amsterdam-Rotterdam Bank	Netherlands	31/12	1,225.91	37	130.18	39	1,247.96	32	143.19	33
Cassa di Risparmio delle Provincie Lombarde	Italy	31/12	1,213.03	38	26.16	92	1,126.30	43	25.11	93
First Chicago	U.S.	31/12	1,204.52	39	66.50	70	1,186.52	38	115.45	47
Algemene Bank Nederland	Netherlands	31/12	1,204.05	40	148.98	37	1,221.36	34	145.55	31
Security Pacific	U.S.	31/12	1,170.00	41	181.90	22	1,042.00	50	164.50	24
The Bank of Nova Scotia	Canada	30/10	1,164.88	42	138.00	21	1,014.91	52	152.79	28
The Royal Bank of Scotland Group	UK	30/09	1,161.52	43	157.10	34	940.03	56	135.01	39
Instituto Bancario San Paolo di Torino	Italy	31/12	1,156.51	44	21.85	94	1,016.49	51	17.74	96
Bank of New South Wales	Australia	30/09	1,137.25	45	160.53	31	915.66	57	134.60	40
Westdeutsche Landesbank	W. Germany	31/12	1,078.67	46	31.12	90	1,156.06	42	96.23	54
Bayerische Vereinsbank	W. Germany	31/12	1,055.61	47	51.53	78	1,158.73	41	84.58	62
Bayerische Landesbank Girozentrale	W. Germany	31/12	1,040.92	48	64.50	71	1,104.41	45	72.13	77
Long-term Credit Bank of Japan	Japan	31/03	1,035.02	49	89.69	58	1,166.63	40	115.95	46
Banco Central	Spain	31/12	1,029.98†	50	107.29†	47	1,123.84†	44	92.40†	55
Mitsui Bank	Japan	31/03	1,026.62	51	47.55	81	1,198.09	35	80.14	69
Tokai Bank	Japan	31/03	1,018.61	52	52.71	77	1,191.89	36	80.14	69
Bankers Trust Company	U.S.	31/12	1,009.64	53	180.87	23	778.60	67	114.47	48
Banco Espanol de Credito	Spain	31/12	1,009.03†	54	119.51†	43	1,083.86†	46	116.38†	45
Bank fur Gemeinwirtschaft	W. Germany	31/12	1,002.76	55	75.55†	65	969.04	55	143.65†	32
Hypo-Bank	W. Germany	31/12	976.53	56	47.40	82	975.42	54	68.23	83
The Toronto Dominion Bank	Canada	31/10	967.53	57	155.36	36	807.64	64	135.48	38
Bank of Tokyo	Japan	31/03	957.77	58	61.76	72	1,080.31	47	81.00	67
Korean Development Bank	South Korea	31/12	937.60	59	56.94	76	990.40	53	65.34	84
Banca Nazionale del Lavoro	Italy	31/12	936.49	60	17.22	97	868.21	58	15.99	98
Australia and New Zealand Banking Group	Australia	30/09	934.15	61	159.19	32	720.11	76	120.87	43
Taiyo Kobe Bank	Japan	31/03	922.55	62	50.83	80	1,072.22	48	60.98	87
Wells Fargo	U.S.	31/12	913.57	63	131.74	41	834.09	60	130.20	42
Mellon National Bank	U.S.	31/12	901.17	64	114.17	45	825.56	62	101.05	53
Banco de la Provincia Buenos Aires*	Argentina	31/12	870.00	65	166.00	26	688.50	79	211.84	15
Banco de la Nacion Argentina	Argentina	31/12	857.51	66	162.12	30	509.54	95	84.46	63
Banca Commerciale Italiana	Italy	31/12	842.20	67	24.54	93	764.77	69	23.73	94
Monte dei Paschi de Siena	Italy	31/12	818.51	68	15.28	99	749.91	73	14.49	99
Northwest Bancorp	U.S.	31/12	796.61	69	116.69	44	718.72	77	109.71	49
First Bank System	U.S.	31/12	782.04	70	111.62	46	701.07	78	103.34	50
Commonwealth Banking Corporation	Australia	30/06	765.68	71	156.62	35	647.64	85	146.28	30
Marine Midland	U.S.	31/12	761.80	72	58.40	74	480.39	99	72.76	76
Societe Generale de Banque	Belgium	31/12	747.79	73	72.53	69	775.99	68	91.99	56
Crocker National	U.S.	31/12	738.62	74	95.10	55	660.00	82	89.36	57
Credito Italiano	Italy	31/12	737.78	75	16.36	98	684.70	80	17.61	97
First National Boston	U.S.	31/12	729.96	76	103.14	50	649.11	83	84.95	61
Nippon Credit Bank	Japan	31/03	718.83	77	61.04	73	825.74	61	75.66	72
Banco Hispano Americano	Spain	31/12	702.47	78	121.39	42	792.30	66	87.79	58
First International Bankshares	U.S.	31/12	687.91	79	122.01	40	602.87	89	101.74	51
Kyowa Bank	Japan	31/03	679.21	80	36.30	86	799.05	65	50.96	90
Korean Exchange Bank	South Korea	31/12	675.66	81	51.34	79	851.24	59	63.07	86
Banco de Bilbao	Spain	31/12	665.50	82	73.79	67	810.21	63	70.57	80
National Detroit	U.S.	31/12	661.00	83	79.96	62	608.00	88	82.01	66
Sumitomo Trust and Banking Corporation	Japan	31/03	650.79	84	27.78	91	749.46	73	76.57	71
Mitsubishi Trust and Banking Corporation	Japan	31/03	645.59	85	35.78	87	740.41	75	70.80	79
Daiwa Bank	Japan	31/03	640.39	86	43.63	84	742.79	74	56.78	88
Credit Industriel et Commercial Group	France	31/12	619.60†	87	79.07†	64	653.67	84	70.85	78
Banco de Santander†	Spain	31/12	617.96†	88	74.32†	66	754.86	70	80.25	68
National Bank of Australasia	Australia	30/09	610.24	89	88.79	59	520.62	94	62.58	85
Deutsche Genossenschaftsbank	W. Germany	31/12	609.54	90	35.41	88	665.64	81	25.97	92
Swiss Volksbank	Switzerland	31/12	605.49	91	38.98	85	543.32	91	39.81	91
Banco Brasileiro de Descontos	Brazil	31/12	604.65	92	96.32	54	526.92	92	74.87	73
Yokohama Bank	Japan	31/03	587.55	93	43.95	83	647.91	86	52.16	89
Hessische Landesbank Girozentrale	W. Germany	31/12	587.24	94	33.16	89	629.56	87	86.96	60
Republic of Texas Corporation	U.S.	31/12	583.96	95	88.13	60	505.79	97	72.88	75
Nederlandsche Middenstandsbank	Netherlands	31/12	579.60	96	89.99	57	524.75	93	87.70	59
Texas Commerce	U.S.	31/12	576.09	97	103.00	51	495.27	98	82.40	65
First City Bancorp	U.S.	31/12	575.37	98	90.45	56	452.19	100	70.47	81
Irving Trust	U.S.	31/12	563.77	99	85.83	61	507.49	96	69.04	82
Creditanstaldt Bankverein	Austria	31/12	562.71	100	19.16	95	598.61	90	22.27	95

NB: This ranking of Credit Agricole is based on the presumption that this nationwide grouping of French agricultural co-operative banks is in reality centrally owned and managed. In the view of many bankers this is not so. If the table were to include only the figures for the central agency, Caisse Nationale de Credit Agricole, the ranking would be as follows: Equity, 1980 31 and 1979 28; Net income, 1980 21 and 1979 18.

* 1980 unaudited figures. † Estimate. ‡ The figure for stockholders' equity was obtained from the balance sheet submitted to the central bank. The net figure for 1980 was obtained by assuming the same return on equity for 1980 as for 1979.

Source: IBCA Banking Analysis and FT Editorial Research Desk.

Strong nerves will be needed

LATIN AMERICA

HUGH O'SHAUGHNESSY

THE BANKING fraternity, local and foreign, will need strong nerves to face the future in Latin America. Such was the message delivered to the company assembled in Madrid last month for the annual meeting of the Inter-American Development Bank by Sr Antonio Ortiz Mena, the bank president. Sr Ortiz Mena, a cautious and prudent figure who is the doyen of the Continent's bankers, is no alarmist and there can be no doubt that his conclusions and the reasons for them are valid.

The basic problems of the Continent, as a sombre Sr Ortiz Mena saw them, were those of finding jobs and food for the fast-growing populations of the region. Intimately bound up with those is the challenge of making life in the rural areas of Latin America attractive enough to keep the people on the land and ensure that they do not go off to the already overcrowded cities in larger numbers than can be coped with.

If those challenges are not met the dangers of social disorder and political crises are great, even unavoidable. Such a state of affairs would clearly shake the banking structures of the region, and perhaps of the world, to their roots.

The difficulty in trying to cope with the problem of productivity and profitability in the countryside is that the financing of farm production has seldom been successfully tackled in the region. In many countries of the region governments, conscious of the need for credits to be extended to farmers, have decreed that the domestic banks should devote a fixed proportion of their lending to the agricultural sector. Such moves, however, have not always achieved the required results, as the continuing low productivity of the farm sector—from Mexico and Guatemala to Uruguay and Paraguay — illustrates.

Not even Argentina, the biggest food exporter of the region, has solved the riddle of providing the funds and the incentives which would enable the farmers to achieve the yields that high-intensity farming could bring.

All the while the political demands of providing cheap food for growing urban populations, many of whom are pauperised, are growing.

It is clear that new ways must be found for finance to be put to work in the countryside of Latin America if the predictions of widespread hunger and unrest are to be set aside.

In the short run problems connected with the high international oil price and the unpromising prices that some countries are receiving for their raw material exports are causing concern.

Brazil, for instance, the biggest borrower in the Third World, is far from being off the danger list. With a foreign debt of some $60bn which will demand servicing to the sum of $13bn this year and a big bill for the import of that 80 per cent of its oil requirements that is not produced locally the country was a source of worry for foreign lenders during much of 1980. As the authorities in Brasilia saw their access to new funds becoming more difficult they reluctantly raised the spreads the country was offering for new money on the Euromarkets. Sentiment in the markets recovered astonishingly and the gloom of last year has in great part lifted.

Rescheduling

The underlying position of grave balance of payments problems remains, however, as there is no sign that the country will quickly be able to find new domestic oilfields whose production could reduce the dependence on imports or indeed develop the production of alcohol from sugar in sufficient quantity and sufficiently rapidly to cut the the oil bill. Policymakers in Brasilia therefore are preparing themselves for a rescheduling of the debt.

Last year Brazil's economic team led by Professor Antonio Delfim Neto, took many of the measures that the International Monetary Fund would likely have demanded from Brazil as a condition for its help. Some observers saw that move as one that would pre-empt any nationalist criticism of a government which was seen to be going cap in hand for help to the—Fund and having Fund solutions forced on it.

Many are now predicting that it will not be long before concrete plans are put to Brazil's creditors which would give the country more time to honour its obligations.

The high oil price has caused difficulties to the central banks of several other Latin American states. Despite the efforts of Venezuela and Mexico to assist with the oil bills of the small states of Central America and the Caribbean the outlook there is somewhat gloomy.

Costa Rica is in the throes of a deep financial crisis which is being tackled less than competently by the government of President Rodrigo Carazo, according to many international bankers. The government of President Jose Napolean Duarte in El Salvador, engaged as it is in a life and death struggle with the insurgents, cannot survive without the financial assistance of the U.S. In Washington there are doubts as to whether this assistance will be available in great quantity as President Reagan's drive for fiscal economy is seen to be as strong as his commitment to support the Salvadorean government junta.

Few observers feel that Guatemala, already the scene of a covert civil war of assassination and counter-terror, will avoid the sort of travail through which El Salvador is presently passing.

Nicaragua too has earned the enmity of the U.S. Administration though for the moment it enjoys much support in Western Europe and some from the Soviet camp.

In the Caribbean Jamaica's troubles are far from over and despite U.S. support Mr. Seaga, the premier, is in almost as much trouble as his more left-wing predecessor, Mr. Manley, was.

In some senses therefore the deep political unrest of Central America and the Caribbean are already presaging the difficulties forecast by Sr. Ortiz Mena.

Arthur Smith, Midlands Correspondent, reports there is no end to the gloom in the West Midlands

'Show us the orders and we'll believe the upturn'

MANY INDUSTRIALISTS in the West Midlands, the manufacturing heartland of Britain and home to more than 5m people, pour scorn on suggestions that an economic upturn is now in sight. They fear further redundancies, company closure and loss of capacity in the face of fierce international competition and severely depressed home markets. For many, bewilderment at the failure of a Conservative Government to respond to their appeals for lower interest rates and cuts in public spending is turning to frustration and bitterness.

"Much of the industrial base has gone in this recession and will continue to go over the next six months," according to Mr. David Owen, chairman of Rubery Owen and president of the Birmingham Chamber of Commerce.

"If the economy does not turn up, the loss of jobs and closures in the West Midlands will be such that the Government will be forced to take action by the autumn."

His warning about the outlook for the region, which contains about 14 per cent of British manufacturing employment, is the more serious when set against the rapid deterioration that has already taken place. Unemployment has doubled over the past 12 months to 12.3 per cent. At least another 200,000 workers are only in jobs because they are protected by the Government-backed temporary short time working compensation scheme. on a conservative estimate, more than one in four of the working population in the region is either unemployed or on short-time.

Such levels of activity are not only worse than those of the three-day week working of the 1974 miners' strike, but also represent a new low in the working memory of most executives.

Mr. Chris Walliker, director of manpower at Delta and chairman of the West Midlands region of the Confederation of British Industry, says: "We are not headline seekers but we cannot see any improvement in the economy. We do not go along with the optimistic Treasury forecasts."

Midland industrialists tended to be a realistic crowd: "Show us the orders and we will believe the upturn is coming," Mr. Walliker says.

Even in the most difficult times, of course, it is possible to find particular companies performing well — "earning Queen's Awards for exports or innovation."

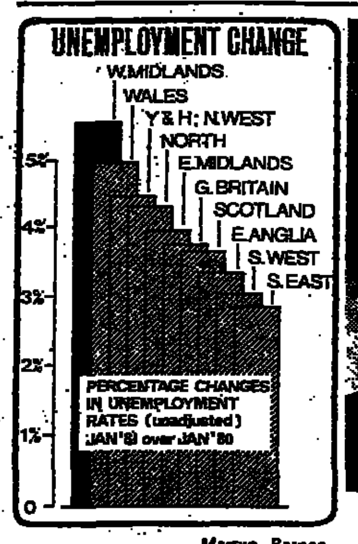
But, says Mr. John Warburton, director of the Birmingham Chamber of Commerce: "There may well be a number of small or even medium sized companies which are reasonably optimistic. But they by no means compensate for the problems of the large concerns."

The CBI and the Chamber of Commerce are as one in their reluctance to predict when the upturn might come. "Analogies about the light at the end of the tunnel have been forgotten. It is more a question of survival," says Mr. Walliker.

The present mood of uncertainty and lack of confidence owes much to disappointment at the March Budget—described by the Chamber of Commerce as "a kick in the teeth for industry."

Industrialists believed that their complaints about high energy prices, the strength of sterling and other cost pressures would meet with a sympathetic response from the Government which they had helped to put in office. Signs of an end of de-stocking in January and February and the onset of spring had helped to raise hopes.

Now, these hopes have been replaced by cynicism about a possible Westminster attempt to talk up the economy in advance



Martyn Barnes

MR. DAVID OWEN: six months more

SIR ARTHUR BRYAN: hit bottom

MR. REG PARKES: further economies

of local government elections earlier this month. In the colourful words of one leading Midlands executive: "Just as Noah sent out the doves in the hope of them returning with green shoots, the emissaries came and talked to us. They were looking only for the good news and ignored the rest."

The realisation that any upturn in the economy now seems unlikely before at least next year is forcing companies to look again at their operations.

Mr. Reg Parkes, chairman of Brockhouse, with interests in engineering, castings and materials handling equipment, and former chairman of the West Midlands CBI, believes that against such a background, plant closures and large-scale redundancies are inevitable. He suggests that many of the people benefiting from the short-time working compensation scheme will eventually be made redundant. Up to 100,000 jobs are at risk in this way.

"In a situation where companies can see no hope of an improvement in orders—no respite from the gloom—they are forced to go back and seek further economies."

Much of the gloom in the West Midlands derives from dependance upon the troubled motor industry which accounts for one in six of the region's manufacturing jobs. A decade ago nearly 2m cars were made in Britain. This year it is likely to be little more than 850,000. Commercial vehicle sales are already running at half the level of last year and the tractor market remains depressed.

Concern at the pace at which the British vehicle industry appears to be crumbling under the pressures of weak demand and foreign competition turned to alarm with the announcement this month that BL intends to switch production of Rover saloons to Cowley, Oxford, and mothball the £27m assembly plant at Solihull, Birmingham.

"The shutdown of Rover could be the beginning of the end for car assembly in the West Midlands. I hope to God that it is not," says Mr. Gordon Morgan, Labour leader of the West Midlands County Council.

He already has the backing of local chambers of commerce for an all-party action group to campaign for a Government commitment to the car industry and its dependent component companies. His fear is that the rapid rundown of the motor industry will make the once-prosperous West Midlands "another Merseyside."

The trend has been apparent for a decade with the large component companies, such as GKN, Lucas and Automotive Products, reducing their traditional dependence upon the British assembly industry in favour of exports, high technology products and overseas manufacturing. The severity of the latest recession has exacerbated the position and meant most companies have shed around 20 per cent of their labour force in rationalisation moves over the past 18 months.

The impact of recession, foreign competition and the problems of the automotive section are perhaps best illustrated by the iron foundries which are basic to much of the traditional Midlands engineering and metal-bashing industries. Foundries have been closing at the rate of one a week, and short time working remains widespread.

Another sector under pressure is machine tools. Though small in employment, with around 16,000 workers, the West Midlands accounts for more than a quarter of the British industry. TI Matrix at Coventry, has halved its labour force this year to 350 after a period of extensive short time working. The company was in a specialised sector of grinding machinery and claimed 25 per cent of the world market. The principal competition was from Germany and Switzerland and exchange rates put TI at a disadvantage, according to Mr. Ken Young, comercial director of TI Machine Tools.

TI Matrix fought back, extended the product range, but cut capacity. "We are now in a situation where we can be more stable and, provided nothing ghastly happens, we can battle through" says Mr. Young.

But carpets and potteries are two formerly prosperous industries which are suffering. The Midlands carpet industry, centred on Kidderminster, accounts for around one-third of the 20,000 British workforce. Factories are working at only around 60 per cent capacity with very little sign of improvement. The strength of sterling has handicapped exporters while imports from the U.S. and Belgium have taken a bigger share of the UK market. Exchange rates have also been an important factor in the short-time working, closures and redundancies that have hit the Potteries. In just 12 months the workforce has been cut by 10,000 to 30,000, and yet short-time working remains widespread.

Sir Arthur Bryan, chairman of Wedgwood, which in the past two years has cut the labour force by 1,800 to just under 10,000, believes the industry has hit the bottom. But he can see no early improvement. Souvenirs for the Royal Wedding were giving a much-needed fillip, but short-time working was still extensive and more capacity in the industry would undoubtedly go.

Recent surveys by the CBI and West Midlands Chambers of Commerce have indicated a slight improvement in export orders. But Mr Warburton, of the Birmingham Chamber, points out that markets are often being maintained at negligible profit margins.

"Remember that Midlands companies at a time of serious international recession are now being asked to carry the additional burdens of the public sector with higher energy charges and 30 per cent rates increases."

The mood is expressed by the managing director of a company which over the past 12 months has cut capacity sharply and axed many hundreds of jobs: "We have done the things that we ought to have done years ago to shed jobs and raise productivity. Now we are down to rock bottom. Stocks are at the minimum. Labour is at the minimum. We are efficient. Our only problem is lack of demand. How do you improve productivity on an empty production line?"

Lobbying of Government Ministers tends to be discreet. According to the chairman of one major company: "Nobody wants to knock a Government elected with such force by the business community of the West Midlands to rejuvenate the economy. They have failed completely, but we don't want to fall into the arms of Wedgwood Benn."

Mr. Walliker, the CBI regional chairman, says members are looking to the Government not for a U-turn but for a shift in emphasis. A 10 or 15 per cent improvement in orders would be enough to restore many companies to profitability and transform business confidence dramatically. For now this kind of change in orders remains only a dream.

Reflationary action — preferably through capital investment projects, such as electrification of the railways—was urgent and would become inevitable by the autumn, Mr. Walliker suggests.

"Conquering inflation must continue to be the prime objective but there comes a time when the benefit of trimming a couple of points off the cost of living index is outweighed by the cost in jobs and industrial capacity. I do not think the people in Westminster or Whitehall quite yet realise the scale of the problems facing the West Midlands."

Letters to the Editor

Long-term Opec interests

From Mr. J. Grieve Smith.

Sir,—The two articles (May 22) on the Organisation of Petroleum Exporting Countries meeting discussed the possibility of Opec moving towards a long term strategy covering not only pricing but also its relations with both the developing and industrialised countries. The West should be ready to respond to any such initiative with vigour and imagination.

The continued supply of oil from Saudi Arabia (and other Middle East producers with large balance of payments surpluses) may not depend so much on price prospects as their ability to invest these surpluses in assets that can compete with the alternative of keeping the oil in the ground. Their present financial investments do not do this; moreover they present a growing threat of financial instability in world currency markets.

One solution would be to set up an international fund offering the oil producers facilities for investing their surpluses in assets indexed against rises in oil prices or the prices of industrial goods. The cost of indexing would be met by the industrialised countries as a *quid pro quo* for the continued flow of oil. The fund would be used to make loans on favourable terms to the developing countries.

Such a scheme would meet the particular needs of the three main groups of nations: the oil producers for a guarantee that their economic security did not depend on cutting oil production; the industrialised countries for a continued flow of oil; and the developing countries for more funds for development. In addition all three have a common interest in preventing a breakdown in the world economy which now seems a very real threat in the 1980s.

It is not the precise terms of such an arrangement which are important so much as the need for a new international initiative to make a concerted attack on these problems, comparable in will and vision to those that gave us the Bretton Woods agreements and the Marshall Plan.

John Grieve Smith.
17, Bramblcdown Road, South Croydon, Surrey.

Civil service pay

From Mr. D. Carr

Sir,—Civil service pay seems to have enjoyed a fairly steady exposure in "Letters". The really salient point, however, for the ingestion of the general public and their representative MPs appears to have been either masked by incomprehensible statistics, or omitted altogether.

Remember that civil servants are "non producers" and have therefore no profit to signify their value to the country. Because of this, special arrangements have to be made to calculate their worth so that they are paid a fair rate, and the taxpayers of this country can be sure that their interests are being protected and civil servants are not being paid too much.

To do this successfully requires that an independent unbiased committee of agreed credibility and integrity examine how much has been paid in the past to comparable employees elsewhere, so that such a rise can be applied to Civil Servants in the future. This is a retrospective arrangement which begins by being out of date by at least six months (!) and customarily ends with a settlement somewhat less than the independently assessed "fair" rate in the interests of perpetual pleas of economic strife. The result is that the civil servants' pay is, by definition, always lower than his private sector counterpart and never catches up.

Please, oh please, will the great British public stop treating their poor relations in public service with such disdain. All we want now — is the same as what you have had since last year!

David J. Carr.
(Professional and Technology Officer.
Ministry of Defence (Navy)).
8, Preston Avenue, Gillingham, Kent.

Divestment at Lloyd's

From Mr. J. Pickering

Sir,—If, as our legislators appear to believe, it is essential for Lloyd's future well-being for brokers to divest themselves of managing agencies, and if, as they say, the present committee and the proposed council are, and will be, dominated by the big brokers what is to become of the two managing agencies which were set up by the committee to look after the affairs of the troubled Ashby and Sasse Syndicates? While it is relatively easy to imagine who might purchase agencies that manage profitable syndicates, it is hard to imagine willing investors wanting to purchase agencies that manage only syndicates with poor track records.

Is divestment such a miraculous panacea that in future, when the five-year period has elapsed, there will not be the slightest possibility of syndicates facing similar problems as have been seen in recent years?

John A. Roll Pickering.
"Waldhaus," 79, College Road, Epsom, Surrey.

Work on wave energy

From the Chief Scientist, Department of Energy

Sir,—David Fishlock's report on the UK wave energy research programme (May 13) is running well off the track when he says that it may be abandoned altogether by the Government next year. No decision of this kind has been taken.

The factual position is that the UK wave energy programme—the biggest in the world—has produced a large number of possible solutions and there are grounds for cautious optimism about the feasibility of utilising this resource. The next phase, however, would involve work on a larger scale and this would be very costly. The Department would therefore wish to concentrate its efforts on a smaller number of devices and to carry out a major assessment of the programme in about March of next year. This assessment will be necessary to enable the Department to decide whether or not to proceed with any of the devices which form part of the present programme.

The position which I have outlined is well known to the enthusiastic teams working on these devices. I accept that the uncertainty stemming from the position I have described must cause some worries for the various teams but clearly I, and the experts who advise the Secretary of State for Energy, must keep an open mind until the results of the present phase of work are available.

Dr A. A. L. Challis
Thames House South, Millbank, SW1

Buying out the index-linking

From Mr A. Sherman

Sir,—In hastening to question my proposal for extricating us from the predicament created by giving civil servants index-linked pensions in the first place Mr Harvey Cole (May 19) jumps to conclusions with an alacrity which would be inconceivable if he carried a heavier burden of knowledge.

For much of the contention ranged round analogues, ie comparisons of what was paid by whom. Were the sole *decidendum* to be the present discounted value of a future indexed pension (anything up to decades ahead) agreement would be much easier and I have no doubt that it could be reached.

As regards the alternative or other half of the compensation—ie further salary increases explicity foregone in return for continued index-linking—there is fortunately no disagreement at all since the sums in question were specified.

True, there can be no mathematically tidy solution because Mr. Heath's original offer was made without foresight or judgment. The best analogue I can offer interlocutors is an old saying about the difference between wisdom and cleverness. A clever man can find his way out of a predicament which a wise man would not have got into in the first place. By contrast Scott, Brittan et al prefer to treat the predicament as their starting point which can only result in extending and exacerbating the anomalies.

Alfred Sherman.
Reform Club, Pall Mall, SW1.

Audit fees

From the Managing Director, Crosslink Business Services

Sir,—Large companies may be getting restless about audit fees (May 19), small companies have been literally groaning for years. I run two small companies and in several of the last 10 years our costs of audit have exceeded 5 per cent of our gross revenues.

It should not be overlooked that an audit is of virtually no value to a small company since it does not yield operationally useful information. It is carried out for the benefit of the Revenue and the Registrar of Companies.

Small businesses have looked to the Conservative Party (so far in vain) to reduce these dragging imposts, perhaps by instituting a simple form of declaration or self-assessment checked by sampling procedures.

John Brodrick,
Crosslink Business Services Ltd.,
13, Cunningham Hill Road, St. Albans, Herts.

Incomplete rosiness

From Mr. E. Grace.

Sir, — "In fact the historical cost figures present a very much rosier picture with a 25 per cent rise to I£52.7" comments Lex (May 15) on the Bank of Ireland results. This is the rosiness of an incomplete picture. In 1952 the Institute of Chartered Accountants warned against basing judgments on historical cost accounts without allowing for erosion of the currency. Yet 29 years later even "Lex" can write "thet damage has been done by a big working capital adjustment." The damage was done by inflation. It was presumably to combat, at least as far as their bank was concerned, this pervasive money illusion, and the misleading idiom which helps to perpetuate it, that the directors of the Bank of Ireland led the way by producing only inflation-corrected accounts.

If the profit of a bank is the realised increase in its wealth during the year measured in £s at the reporting date, then profits for 1980-81 are 25 per cent down on the previous year. They can be shown to be 25 per cent better only by suppressing an essential element of the published accounts.

Edmond Grace.
Manchester Business School, University ofManchester, Booth Street West, Manchester.

Desirability of coal conversion project

From Mr. R. Olliver.

Sir,—Martin Dickson's report (May 12) of a major row between the National Coal Board and the Department of Energy over the coal liquefaction pilot plant could be good news if it compels the NCB to break with its policy of secretiveness.

The NCB's claim to have developed a better process than all the others cannot be evaluated. Research last year for a book concentrated on putting side by side process details, product slates and process and capital costs for all the major liquefaction processes. This was possible for the U.S. and German processes. But the only evidence that could be extracted from the NCB was a sweeping claim, via the Department of Energy, that it would be 30 per cent cheaper than the U.S. processes, after adjustments to put all on an equal footing to produce motor fuels. This remains unsubstantiated by figures and inevitably leaves outside experts on coal liquefaction sceptical; the laws of thermodynamics do not appear to offer scope for such savings over the techniques tested in the U.S. and Germany.

The NCB research establishment is enthusiastic about its technique. But its failure to stake reputations on a detailed presentation of its merits may mean that the case may go by default. Yet the NCB approach has a unique feature — the removal of "sludge" from the coal before the tricky stage of hydrogenation with catalysts at very high pressures. Whereas the 30 per cent saving may be exaggerated, the strength of the process may lie in other advantages, such as reliability, avoidance of mechanical problems, erosion, corrosion, etc. These might make up for five years or so that Britain lags behind its competitors.

Even if all the facts are revealed, there is still a danger that judgment of the desirability of developing coal conversion in Britain will be blurred by somewhat irrelevant arguments. The first is that Britain will be self-sufficient in oil (and gas) until the 1990s or even much later, which may seem comfortably distant, but not in the light of the 10 to 15 year gestation period for this new technology. The billions of dollars being spent in the U.S. and Germany will not come to fruition until the 1990s and the process of refinement will go on until the end of the century. The question is not when Britain will need coal liquefaction but whether it can be an innovator in this field, in which case decisions are needed now.

British coal is expensive and liquefaction will first be used where coal is cheap. Coal is even more expensive in Germany, whose attitude to these two points is of particular interest. Both the government and Ruhrkohle, the major hard coal producer, recognise that the economics of coal conversion will demand the use of imported coal. Prospective exports of know how and plant are considered an important justification for investing in development to recover leadership in this technology. Indeed, the international market should be big business: by the year 2000 the number of coal conversion plants in the world could reach 100, requiring an average investment of the order of $10bn a year at 1980 prices.

The Department of Energy recognises the importance of exports. But this motive for development is outside the province of the D of E and is not likely to be a prime factor in the NCB's calculations (nor those of British Gas in respect of gasifier development). The market should be there, but one wonders who in Britain is capable of marshalling the arguments on behalf of British industry (providing the advantages if the NCB's technique are proved).

With regard to the internal use of coal conversion, the interests of the two state corporations may even run counter to its development. By 1990 it is likely, for instance, that chemical feedstock made from imported coal in Germany (by liquefaction or gasification) will be cheaper than those made from natural gas. British Gas surely judges the need for coal gasification according to the time when it becomes cheaper than natural gas, which would be much later. Consequently the development of the promising British Gas/Lurgi slagging gasifier is being left to U.S. interests. In the case of coal liquefaction it does not seem likely that the NCB and the mineworkers union will argue the case for development on the basis of imported coal. These attitudes could well damage the competitiveness of British chemicals.

It would be far from satisfactory if a decision on the £65m liquefaction plant — and the implication of an infinitely larger investment in the future —were to be fought out behind closed doors by the NCB and the D of E.

Dick Olliver.
31, Glenmore Road, Belsize Park, NW3.

Today's Events

GENERAL

UK: Mr. Cecil Parkinson, Trade Minister, meets Mr. Vladimir Sushkov, Soviet Deputy Minister for Foreign Trade, in London.

Sir David McNee, Metropolitan Police Commissioner, lectures on law and order, Royal Society of Arts, London.

Mrs. Shirley Williams, member of Social Democratic Party leadership, speaks on "Industry with a human face" to Institute of Management Services, London.

Mr. Gordon Richardson, Governor of the Bank of England, speaks at Financial Times lunch for representatives of foreign banks in London, Mansion House.

National Association of Head Teachers conference opens, Blackpool (to May 29).

Mass meeting of Liverpool dockers to discus pay offer.

Prince Philip becomes President of the World Wildlife Fund International, Wembley Conference Centre.

Prince Charles receives freedom of Goldsmiths' Company, London.

Dr. Khalil Makkawi, Lebanese Ambassador, opens London Chamber of Commerce conference on Lebanon.

Prince Michael of Kent opens retail motor trade exhibition and convention, London (to May 29).

European Liquefied Petroleum Gas Congress and Exhibition opens, Royal Festival Hall, London (to May 29).

Institution of Mechanical Engineers discussion on recognition of professional competence, London.

Overseas: EEC and Japanese officials start two-day meeting on Japanese car exports, Paris.

United Nations and Organisation for African Unity conference on South Africa concludes, Paris.

Lord Carrington, Foreign Secretary, concludes meeting in Algeria.

COMPANY MEETINGS

See Company News on page 17.

UK COMPANY NEWS

JFB falls £2.88m in the red—omits interim

TURNOVER of **Johnson and Firth Brown**, the specialist engineer, fell from £147.7m to £117.9m and for the half-year ended March 31, 1981, the group suffered a taxable loss of £2.88m, compared with a profit of £4.04m.

For the whole of the 1979/80 year there was a profit of £5.58m, well down on the previous £10.3m.

Mr. J. M. Clay, chairman, says that while the board can see no clear signs of an upturn, the situation is no longer deteriorating. However, in view of the uncertain outlook, the interim dividend has been passed—last year's final was omitted leaving the interim of 1.3p as the total payment.

The directors have responded to the recession with a vigorous programme of retrenchment and disposals, the chairman explains.

A substantial reorganisation of the group's largest subsidiary, Firth Brown, has been undertaken, which includes the closure of the carbon and low alloy billet activity resulting in 1,200 redundancies.

"This does not in any way affect our business in the more specialised steels for which we are excellently equipped and which have greater profit potential," Mr. Clay states.

The Firth Brown closures and various other reorganisations within the steel division were largely responsible for a £4.71m (£545,000) extraordinary debit for the period, he says.

The group's financial position has inevitably deteriorated because of the losses but it has "substantial unused bank facilities. We are confident that we will have ample funds to finance the upturn in trade which we expect in due course."

He is hopeful of reporting a general improvement in trading and prospects in his next statement.

There was a small trading profit of £794,000, against £8.71m, and was split as to: steel £1.12m (£3.53m); rod and wire £642,000 loss (£2.27m profit); engineering £625,000 profit (£1.6m); central administration costs £307,000 (£372,000). U.S. interests contributed £1.69m last year.

Pre-tax figure was after interest charges of £4.07m against £4.69m, and associates share of £399,000 (£25,000). After tax, £260,000 (£1.4m), and the extraordinary items the attributable loss came through at £7.85m (£2.1m profit).

The first instalment of £3m from the sale of the two steel wire mills has been received, the outstanding balance of £6.5m to be paid over four years—the proceeds are being used to reduce borrowings, the directors say. The mills incurred a £0.7m loss in the six months to March 31, which was included in the pre-tax figure.

Balance-sheet shows shareholders' funds of £75.78m (£84.9m), net current assets of £54.62m (£67.73m), and net assets of 67p (75p) basic per share.

Los per share is given as 3.2p, compared with earnings of 2.9p.

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Reo Stakis static at six months

AFTER higher charges, including interest, of £844,000 against £356,000, pre-tax profits of the **Reo Stakis Organisation**, hotelier, restaurateur and gaming proprietor, were virtually static in the half-year to March 29 last at £1.53m compared with £1.52m.

The directors state that the fall in interest rates has enhanced second half prospects.

The interim dividend is 0.45p net—up from 0.4—a final of 1p was paid for the last full year.

After tax of £386,000 (£384,000), attributable profits are £1.15m (£1.14m) and earnings per 10p share are shown as 2.09p (2.13p).

Turnover increased in the half-year from £31.22m to £36.78m.

● comment

Largely because the five former Ladbroke casinos are now included, trading profits at Reo Stakis have advanced 26 per cent in the first half. Although casino profits are up by more than half, margins seem to be somewhat slimmer than they were: the main reasons are higher duty, heavier refurbishment costs, and a bigger management team. It is unlikely that the additional casinos will make much impact this year at the pre-tax level; their acquisition has helped push borrowings into the region of £15m and the resulting jump in interest payments has cut the growth of interim pre-tax profits to less than 1 per cent. The brightest part of Stakis at the moment is still the chain of off-licences. Retail drink sales are still running well ahead, and on slightly better margins. Hotels stand in need of a good summer, even more than usual; a fall in business traffic has been aggravated by reduced schedules on the London-Glasgow shuttle. The small improvement this half comes from financial activities which Stakis groups with its hotels. On yesterday's share price of 53½p (up 2½p), the prospective yield is about 4 per cent. A fully-taxed p/e of 13—assuming £4m pre-tax—reflects the present weight of demand for hotel shares.

BOC ahead by £2.3m in first six months

ON reporting first half pre-tax profits up from £31.1m to £33.4m, the directors of **BOC International** also announce an £82m rights issue of convertible loan stock.

Despite a static second quarter, with profits of £18.8m (£18.7m), the surplus for the six months ended March 31 1981 rose by £2.3m. Sales of this industrial gases, welding products, health care and carbon graphite products maker, moved ahead from £615.9m to £643.3m.

A recent review of current trading activity and prospects confirms the directors' forecast of a substantial improvement for the year as a whole. It was expected that the main improvement would occur in the second half—last year's profit contribution was £30.4m for this period, giving a total of £61.5m pre-tax.

Surplus for the half-year was struck after interest charges, up from £27.3m to £30.2m, and subject to tax of £14.5m against £11.6m.

After minority interests of £4.3m (£3.6m), earnings came through down at £14.6m, compared with £15.9, giving a value of 5.54p (5.91p) per 25p share on a nil basis, and 4.44p (4.89p) net.

The interim dividend is increased to 2.3p (2.1p) net—last year's final was 2.52p.

Operating profit for the six months was £54.8m (£48.7m) and was split geographically as to: Europe £13.3m (£10.6m); Africa £9.5m (£7.7m); Americas £19.1m (£19.3m); Asia £0.9m (£0.7m); Pacific £12m (£10.4m). Trading profits of £63.6m (£58.4m) included inventory gains of £8.8m (£8.9m) and an exchange gain, last time, of £0.8m.

The rights issue of 9 per cent convertible unsecured loan stock 2001-6 is at par in the proportion of £1 nominal of stock for every four shares. The conversion rights are exercisable between 1985 and 2001 and will be at the rate of 74 ordinary for every £100 of stock.

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DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div.	Total for year	Total last year
Percy Bilton	4.4	—	4.4	6.9	6.9
BOC Intl. ...int.	2.31	Oct. 6	2.1	—	4.62
Cakebread Robey	2	—	1.7	2.6	2.3
Cambrian & Gen. ...int.	2	June 27	1.8	—	5.5
Energy Services	0.45	—	0.38	0.75	0.63
John Foster	nil	—	0.5	0.5	1.5
Johnson Firth Brown int.	nil	—	1.3	—	1.3
Kelsey Ind. ...int.	2.5	July 10	2.5	—	8
Porter Chadburn	1.3	July 10	4.46	2.6	6.15
Reo Stakis ...int.	0.45	Sept. 10	0.4	—	1.4
Scottish Inv. Tst. ...int.	1.7	July 20	1.7	—	4.3
Scottish Nat. Tst. ...int.	2.2	June 19	1.95	—‡	6.84§

Dividends shown pence per share net except where otherwise stated.
* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ Final of not less than 4.65p forecast. § Including non-recurring 0.6879p.

Bilton's slight progress

DESPITE LOWER turnover of £28.32m against £31.52m, 1980 taxable profits of **Percy Bilton**, property investor and developer and civil engineer, edged ahead from £6.08m to £6.13m.

After tax of £1.23m (£1.56m)—reduced by a £1.32m realease of deferred tax—attributable profits emerged up from £4.5m to £4.9m and earnings per 25p share are shown as 13p (12p).

The dividend is held at 6.9p with a same-again final of 4.4p.

The profit is struck before an extraordinary credit this time of £1.44m.

● comment

Weak towards the close of the first leg of the current account, shares in Percy Bilton dropped a further 4p to 208p yesterday on the marginal profits increase and maintained dividend. Dealers reported little follow-through after the results announcement. The turnover decline is merely a reflection of the foreshadowed change of emphasis from building and construction but the discount on disclosed, but not consolidated, asset backing on last year's figures of 260p, is beginning to look rather marked given the location of much of the industrial portfolio in and around the fashionable Heathrow, West London "triangle" area. The market's apparent disinterest stems from the limited spread of share holdings and the growing conviction that equity control will not be much changed on management succession, or its style. That would take out any speculative froth for the moment, and while the market waits patiently for the split between construction and rental income, the values imputed by potentially willing sellers and prospective buyers are said to be some way apart.

Old Swan ahead: 1 for 2 rights

ACCOMPANYING a 56 per cent increase in pre-tax profits to £67,342 for the year ended March 31 1981, the **Old Swan Hotel (Harrogate)** has come forward with a hefty one-for-two rights issue at 50p a share to raise £600,000.

A rights issue was foreshadowed last April when Investment Intelligence (Intel) first took a stake in the company and Mr T. Aitken, Mr T. Jameson and Mr B. O'Conner joined the Old Swan board.

The Old Swan is a 140-bedroom hotel sitting in 5½ acres of land near Harrogate.

Mr Tim Aitken said last night that there were no specific plans for expansion apart from "bringing the hotel into the twentieth century." In the autumn a £25m conference centre will be completed in Harrogate which will be of benefit to the hotel as one of the three "four-star" hotels in the town.

Otherwise the cash raised will be used to "extend operations into other leisure activities. No firm proposals have been made but the directors are considering self-catering and time-sharing holiday accommodation."

The formal document will show that a professional revaluation has thrown up a surplus of over £1m to raise the net asset value to £1.4m. Currently borrowings amount to a small overdraft of £10,000.

The rights issue has been underwritten by Aberdeen Investments, which is taking over the corporate finance activities of Intel. With its various associates Intel holds close to 20 per cent of the Old Swan equity.

The company's turnover for 1980-81 amounted to £1,194,133 (£1,051,537). After tax of £35,452 (£22,289) net profit amounted to £31,890 (£21,006). Earnings per share are shown at 1.28p per share compared with 0.84p and the dividend is held at 0.6p per share with an unchanged final of 0.4p.

In the market the shares rose 2p to 76p where the company is capitalised at £1.9m. The historic earnings multiple is 59 and the yield 1.5 per cent. Net assets are 56p a share.

Brokers to the issue are Laing and Cruickshank.

European Ferries

THE shipbuilding programme of **European Ferries** ended with the delivery at the end of 1980 of the Pride of Free Enterprise for the Dover-Calais route, says Mr K. D. Wickenden in his chairman's statement. The programme will not be reactivated until the outlook for short sea shipping becomes less uncertain.

He also says that further expansion at the port of Felixstowe will not be considered until the confidence of its customers is restored after a major industrial dispute there early in 1981, involving the dock workforce.

Turning to the company's property division, he says most of its future developments are likely to be overseas because of difficulties with UK planning authorities.

Reporting on the shipping division's poor results for 1980 he says they were caused by a decline in freight demand, the French fishermen's dispute and the tourist "price war" initiated by its nationalised competitors Sealink and Seaspeed.

Vigorous marketing campaigns increased the European Ferries' tourist carryings by some 50 per cent, but unrealistic tariffs means that it could not recover the extra financing and depreciation costs of the new efficient short sea fleet, apart from generally increased costs, and so shipping profits fell sharply.

The results for 1980 were reported on May 12. Balance sheet items are as follows: shareholders funds £156.99m (£114.41m); long term liabilities £77.74m (£46.4m); fixed assets £168.08m (£129.46m); net current assets £47.22m (£27.82m).

JOHN MOWLEM

Acceptances have been received in respect of 95.5 per cent of the 3.78m shares of **John Mowlem** offered in a £5.29m rights issue.

WINDING UP

Ritecopy has been compulsorily wound up in the High Court.

Modest rise at Energy Services

SECOND-HALF pre-tax profits of **Energy Services and Electronics** rose from £723,000 to £805,000, and figures for the whole of 1980 also showed an increase, rising from £1.33m to £1.51m. Turnover of this manufacturer of electric and electronic components was up from £10.46m to £12.57m.

With a final dividend up from 0.375p to 0.45p, the total is 0.75p (0.625p).

The board says that although it is difficult to estimate results for the current year, the group should show a small profit increase, but so far there are no indications of any growth in the UK sector. This may lead to a small shortfall in 1981 profits, the impact of which will be greater in the first half.

After tax, down from £309,000 to £256,000, minority credits of £13,000 (£4,000) and an extraordinary loss this time of £12,000, attributable profits come out at £1.26m (£1.03m). Stated earnings per 10p share improved to 3.37p (2.73p).

On a CCA basis, the pre-tax figure was £1.26m (£1.18m).

● comment

On the face of it, the full-year results from Energy Services and Electronics should be cause for contentment. Pre-tax profits rose 13.4 per cent, and the annual dividend has been lifted 20 per cent, covered 3½ times by CCA earnings. But there is a certain wariness in the tone of the chairman's statement, which suggests that things may have turned slightly sour. The reported absence of growth indications in the UK and the volatility of exchange rates, may justify this caution, breaking a year sequence of significantly improved results. The shares fell 1½p, to 29½p, where the historic yield is 3.6 per cent, and the p/e of 15, fully-taxed, probably discounts sustained progress.

Buoyant Furness Withy at £13m

FURNESS WITHY, the UK shipping group which was taken over by Hong Kong's C. Y. Tung last year, increased its pre-tax profits by 53 per cent to £13.1m in the year to end-December, 1980.

The improvement in the group's profitability is understated since there was no contribution from Overseas Containers Ltd. (OCL), which contributed £6m in the previous year. Furness raised £28m from the sale of its OCL stake and this provided a cash dividend for the new parent company, Orient Overseas Container (Holdings).

The bulk of the improvement at Furness was accounted for by a 137 per cent jump to £8.4m in the profits of Houlder Offshore Houlder now contributes over half Furness Withy's trading profits and has been the focal point of new investment over the last year. The group has committed £80m on taking a one-third stake in a new semi-submersible drilling rig, a one-third stake in a jack-up rig and increasing its stake in Comex Houlder Offshore.

The trading profits of the group's bulk shipping operations rose by £4.1m to £4.3m and Furness Withy (Chartering) jumped by 150 per cent to £3.4m.

The only black spot in Furness Withy's profit recovery last year was Manchester Liners, where trading losses doubled to £3.1m. However, several Manchester Liners' ships have been disposed of, the operation has been slimmed down and Mr Brian Shaw, Furness Withy's chairman, says the situation should be transformed by 1982.

Since the £112.5m takeover by the Tung group last year, Furness Withy has disposed of 13 of its own ships and is negotiating the sale of another four. In addition, three ships which were managed by Furness have been sold by their owners.

Scottish Inv. Trust lower at halfway

Net revenue of the **Scottish Investment Trust** slipped from £1.93m to £1.86m in the half-year to April 30 1981 after tax of £1.23m against £1.21m.

The directors say income has been affected by the substantial movement of funds overseas begun early last year, but the full year's results should be satisfactory.

The interim dividend is held at 1.7p net—last year a total of 4.3p was paid. Net asset value is given as 189.6p per share, compared with 169.3p at the end of October 1980.

Since that date, the trust has purchased in the spot and forward market US$19m towards repaying dollar loans and swaps as they fall due.

At the end of April, amounts drawn on lines of credit comprised $4m and the equivalent of US$8m in other currencies, making in all $12m against $14.3m at the end of October.

KCA Drilling Group plans to offer 20m shares

A PUBLIC offer of shares worth around £20m in **KCA Drilling Group** is expected within the next few days. Mr Paul Bristol, chairman of KCA International, said yesterday that the part divestment of the group's fully owned drilling subsidiary would be announced either at tomorrow's annual meeting or early next week.

The issue, which is being packaged by stockbrokers Carr Sebag and merchant bank Charterhouse Japhet, is expected to value the drilling company at around £80m. Around 100m shares in the new company will be authorised, of which some 20m will be issued to the public and a further 60m will be held by the KCA parent company. This would give KCA International a 75 per cent stake in the new company.

The shares are expected to have a par value of 25p and to be offered at between 95p and 100p each. The new company, being hived off in the style of Berkeley Exploration, will have a full listing on the London Stock Exchange, according to Mr Bristol.

Mr. Bristol said yesterday the bulk of the money raised from the issue would be used to pay for a $65m drillship purchased recently. KCA International had already paid £8.2m toward the drill ship from the proceeds of its £12.5m rights issue last November.

Another reason for the flotation of KCA Drilling was that it would "give a value to a part of the company which seems a trifle undervalued."

SPAIN

May 26	Price %	+ or −
Banco Bilbao	302	−3
Banco Central	355	
Banco Exterior	292	+2
Banco Hispano	282	−2
Banco Ind. Cat.	123	
Banco Santander	333	−2
Banco Urquijo	190	+2
Banco Vizcaya	319	−2
Banco Zaragoza	227	+5
Dragados	178	+2
Espanola Zinc	78	+1
Fecsa	67.5	
Gal. Preciados	46	
Hidrola	71	−0.7
Iberduero	60	+0.5
Petroleos	109.5	
Petroliber	91	+0.5
Sniaofisa	79	
Telefonica	66	+0.3
Union Elect.	71.7	+1.7

UK COMPANY NEWS

Kelsey profit slumps to £0.4m

IN THE half year to the end of March 1981 profit before tax of Kelsey Industries plunged 76 per cent from £1.63m to £384,000 on turnover down from £12.19m to £10.65m.

Manufacturing turnover fell 10 per cent in value and 15 per cent in volume, and contracting orders were down 38 per cent.

However the directors have maintained the interim dividend at 2.5p per 25p share. Last year a final of 5.5p was paid, when the company made a pre-tax profit of £2.84m.

Mr. John G. Moss, chairman, says the months of March and April have shown some improvement in orders and provided this trend continues he expects the second half profit to be better than the first though pre-tax profit for the year will not approach that for 1979-80.

In the U.S. Bib Hi-Fi Accessories Inc is doing much better, he says, and Multicore Solders Inc is fully on target and should be contributing profit from now on.

The final dividend will depend on the results and outlook at that time but unless the company suffers further reverses it is hoped to recommend the same rate as last year he says.

Tax for the six months is estimated at £76,000 (£754,000 adjusted to reflect the effective rate for the full year), and after preference dividends of £77,000 (same) the amount attributable emerged at £231,000 (£795,000). The earnings per share are stated at 6p (20.7p).

The principal activities of Kelsey Industries are the manufacture and sale of solder, soldering and audio accessories, sealants and mastic compounds and the business of industrial roofing and insulation contractors.

● **comment**

A year ago Kelsey's interim pre-tax profits shot up by 79 per cent; yesterday, the group succumbed to the pressures of receession and revealed a 76 per cent downturn. Kelsey's contracting business, sharply down on the order front, operates on a very short cycle. Its manufacturing profits have also bowed to shrinking orders. In the U.S. the Multicore business is just emerging from its start-up phase and cannot have produced any contribution. Kelsey has certainly done poorly and will probably be well down on its previous £2.8m pre-tax by this year's end. Fortunately the group has a healthy balance sheet and can stand a hiccough, even a year-long one. The shares fell 9p yesterday to 255p and would yield a pedestrian 4.5 per cent on a maintained total dividend. The historic fully-taxed p/e is now eight, but it is a lot higher on short term prospects.

Porter Chadburn downturn

AFTER redundancy and development costs of £108,892, and much higher interest, up from £163,915 to £376,201, taxable profits of Porter Chadburn, brewery and marine engineering equipment maker, were well down at £200,750 for the year ended January 8 1981, compared with £674,305.

The dividend is cut from 6.1495p to 2.6p net with a final payment down from 4.4555p to 1.3p.

Turnover rose slightly from £15.17m to £15.96m but the directors say the decline in volume has necessitated a drastic reduction in employees through redundancy and short-time working. This has resulted in increased efficiency so that if demand remains static the company should be able to improve performance in the current year and move forward with the economy in 1982, they state.

At the midway stage, with profits behind from £318,100 to £159,800, the directors said that the continuation of recession and high interest rates must preclude any significant improvement in performance in the second half of the year.

Tax for the full period took £83,405 (£98,905) and the attributable balance came through at £79,514 (£575,400) after an extraordinary debit of £37,831, relating to the losses and disposal costs of the geodetic equipment side, Chadburn (M.D.S.).

After this item earnings per 20p share are given as 2.34p (17.67p).

John Foster £0.9m in red

IN THE year to the end of February 1981 John Foster and Son plunged from a pre-tax profit of £228,000 to a loss of £888,000 on turnover down at £11.19m compared with £14.16m.

At the half year stage this Bradford based spinner and cloths manufacturer made a loss before tax of £748,185 (£342,671 loss) and after predictions then of an improved second half the loss for this period came out at £140,259 (£670,671 profit).

The directors have decided not to pay a final dividend (0.5p) making a total for the year of 0.5p (1.5p) per 25p share.

Looking to the current year they say the exceptionally adverse trading conditions in both the home and export markets have continued. Thus the current half year will also show a loss.

However, although there has so far been little improvement in home trade, there has recently been a very considerable increase in export orders and they confidently expect the second half will produce a "not unsatisfactory profit."

After a tax credit of £80,000 (£69,000 charge) the loss attributable emerged at £808,000 (£15,000 profit after extraordinary debit of £106,000).

The loss per share is stated at 10.8p (1.5p earnings). The pre-tax loss is increased to £1.11m on a CCA basis.

● **comment**

Shares in John Foster last skimed par value, albeit briefly, on May 9. The question for the group's investors large or small and some of major recipients of Vantona's 15 per cent holding is when will earnings return, not only to equilibrium, but to show positive and sustainable growth on an inflation adjusted basis? Pre-tax profits hit a peak of £1.2m in 1974 and shareholders' funds were £3.34m. Profits ever since have slipped sideways and down while the sum of equity and reserves has risen to over £5m. Now it is in loss and will remain so through the first half this year. Seasonal influences generally indicate dull interim but the hopes on which Foster is pinning its recovery are sterling/yen parities, mohair prices and high interest rates—heavy debt is generally required to finance a long inventory cycle — which reavl the extent to which profitability is dependent on one market and one product. There is a very strong short term case for saying that earnings will respond to lower interest rates, more favourable currency alignments and past, pruden, overhead triming. But that may not be guaranteed to shift profits out of a gently subsiding trend over the long term. Either Foster moves closer to the consumer, which implies a radical shift in its making-up traditions, or it finds a new, high quality product of indigenous manufacture to augment and expand mohair earnings. Name one.

Cakebread static at year-end

PRE-TAX profits of Cakebread, Robey and Company, builders' and timber merchant, were little changed at £888,855 in 1980 compared with £851,300 in the previous year. Turnover rose from £15.13m to £15.9m.

The final dividend is raised from 1.7p to 2p for an increased total of 2.6p (2.3p).

After tax down from £300,875 to £142,611, stated earnings per 10p share improved from 9.2p to 12.4p. There was an extraordinary credit of £111,184 (£29,380).

The board says freehold and leasehold properties were professionally revalued in 1980 and the surplus of £1.5m will be incorporated in the accounts.

On a CCA basis, the after-tax profit is £313,000.

Yorks. Woollen suspended

Shares of Yorkshire Fine Woollen Spinners were suspended yesterday at the company's request pending an announcement. The suspension price of 37p values the group at £582,000.

Earlier this year the company bought A. W. Fabrics, a subsidiary of Cope Sportswear, from the receiver and made a £560,000 rights issue which was used to provide part of the finance for the purchase.

Yorkshire's results for 1980 showed a loss of £246,000 before extraordinary items.

Myson's longer-term confidence

THE financial position of Myson Group has improved considerably as a result of the arrangement with Barclays Bank, Mr Robert E. Myson, chairman, tells members in his annual review.

He is confident that the investment made in new products and sophisticated computer controlled production machinery recently installed will, with the financial restructuring and benefits of a smaller and more efficient workforce, "lead to a progressive restoration of your company's growth and prosperity in the longer term."

A pro forma consolidated balance sheet, reflecting the allotment of shares to Barclays and the restructuring of borrowings, shows that shareholders' funds have increased from £7.84m—at December 31 1980—to £10.84m, at the same date; net current assets have jumped from £3.89m to £13.68m; bank overdrafts are down from £13.51m to £3.72m and loans up from £5.36m to £12.16m.

As reported on April 29, this heating, ventilation and air-conditioning specialist ended 1980 with taxable losses of £2.97m, against a profit of £2.1m. The final dividend was omitted leaving the 1p interim as the total (3.8p).

Agreement was reached with Barclays for the bank to subscribe at par for £3m of a new class of 8 per cent redeemable cumulative convertible preference shares and for the restructuring to comprise a £10m, ten-year loan and a three-year overdraft facility of £5m.

Further reductions in manning levels were made in the first quarter of the current year, and with high interest rates and strong sterling still affecting both sales and margins, "it is therefore unlikely that profit will have been achieved in this period." Mr Myson states.

He adds, however, that there has been a gradual but noticeable improvement in sales activity since the beginning of 1981, and following the "most disastrous" downturn in building activity in 1980 the private sector is now showing real signs of improvement.

Meeting, Abercorn Rooms, EC, June 17 at 11 am.

YEARLINGS UP

The interest rate for this week's issue of local authority bonds is 13 per cent, up one quarter of a percentage point from last week. The bonds are issued at par and are redeemable on June 2, 1982.

A full list of issues will be published in tomorrow's edition.

BOOTS STORES

In yesterday's story on Boot's, the drug and retailing company, the number of stores was wrongly stated to be about 2,300. In fact the number is 1,238. Selling space has increased by 67 per cent since 1973. In the same period UK retail profits have risen by 90 per cent.

Today's company meetings

Biddle Hldgs., Cafe Royal, Regent Street, W, 12.00. Churchbury Estates, 12-13, Henrietta Street, WC, 10.00. Clyde Petroleum, Central Hotel, Gordon Street, Glasgow, 12.00. Danish Bacon, Hyde Park Hotel, Knightsbridge, SW, 11.00. Elbar Industrial, Winchester House, 100, Old Broad Street, EC, 10.30. Elys (Wimbledon), 22-26, Wimbledon Hill Road, Wimbledon, 6.00. Fogarty (E.), Havenside, Fishtoft Road, Boston, Lincolnshire, 2.15. Guardian Royal Exchange Assurance, Chartered Insurance Institute, 20, Aldermanbury, EC, 12.00. Hanger Invs., Chamber of Commerce, 75, Harborne Road, Birmingham, 2.30. Miller (Stanley), Brandling House, Gosforth Park, Newcastle-upon-Tyne, 12.00. Moss Bros., 21-26, Bedford Street, Covent Garden, WC, 12.00. Northern Engineering, Gosforth Park Hotel, Newcastle-upon-Tyne, 12.00. Phoenix Assurance, Phoenix House, 4-5, King William Street, EC, 12.00. RTZ, Commonwealth Hall, 16-20, Craven Street, WC, 11.00. Rockware Group, Winchester House, 100, Old Broad Street, EC, 3.00. Stone-Platt Inds., The Royal Aeronautical Society, 4, Hamilton Place, W, 2.30. Sun Life Assurance Society, 107, Cheapside, 12.30. Upton (E.), 175-183, Linthorpe Road, Middlesbrough, 7.30. Weir Group, 30, George Square, Glasgow, 12.00. Western Motor, Drake House, Laira Bridge Road, Plymouth, 12.30. Wood (Arthur) (Longport), Bradwell Works, Longport, Stoke-on-Trent, 12.00.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims: Allied London Properties, Caravans International, General Stockholders Investment Trust, Spring Grove Services, Tate and Lyle.

Finals: Allied Irish Banks, Dorsenkande Rubber Estates, English and International Trust, Jersey General Investment Trust, London Atlantic Investment Trust, M and G Group, Monks Investment Trust, New Throgmorton Trust, Takeda Chemical Industries, Witan Investment.

FUTURE DATES

Interims—

Associated Sprayers	May 29
Carr (John) (Doncaster)	June 2
Carr's Milling Industries	June 9
Comet Radiovision Services	June 3
English China Clays	June 18

Finals—

Associated Communications	June 25
Barlows	May 29
Butterfield-Harvey	June 16
De La Rue	June 2
Electric and General Invest.	June 25
Eva Industries	June 3
Harrisons and Crosfield	June 2
Highams	June 3
London and Lennox Inv. Tst.	June 2

EUROPEAN OPTIONS EXCHANGE

Series		Aug. Vol.	Aug. Last	Nov. Vol.	Nov. Last	Feb. Vol.	Feb. Last	Stock
GOLD C	$475	—	—	5	45 A	25	60	$467.50
GOLD C	$500	12	18	1	—	—	—	"
GOLD C	$525	12	10	2	27	—	—	"
GOLD C	$550	2	8	2	20	—	—	"
GOLD P	$475	97	21	—	—	5	31	"
		July		Oct.		Jan.		
ABN C	F.280	—	—	2	12.50	—	—	F.276.50
AKZO C	F.17.50	12	5.60	—	—	—	—	F.23.10
AKZO C	F.20	—	—	44	4.40	—	—	"
AKZO C	F.22.50	155	1.90	—	—	—	—	"
AKZO C	F.25	52	0.50	148	1.90	15	2.50	"
AKZO P	F.22.50	—	—	14	0.90	—	—	"
AKZO P	F.25	—	—	—	—	15	2.50	"
AMRO C	F.50	—	—	—	—	5	5.50	F.51.20
AMRO C	F.60	—	—	26	2	—	—	"
KODA C	$60	—	—	1	5½	—	—	$75⅛
HOOG C	F.15	5	2.90	—	—	—	—	F.16.50
HOOG C	F.17.50	—	—	4	1.60	—	—	"
HOOG C	F.20	—	—	25	0.60	—	—	"
KLM C	F.60	8	72 B	2	60	—	—	F.132
KLM C	F.90	—	—	—	—	—	—	"
KLM C	F.100	30	33.50 B	—	—	—	—	"
KLM C	F.110	36	23.50	—	—	—	—	"
KLM C	F.120	68	17.60	—	—	—	—	"
KLM C	F.130	275	12.50	12	16	—	—	"
KLM C	F.140	175	7.50	24	12.50 A	2	18.50 B	"
KLM P	F.80	—	—	3	0.90	—	—	"
KLM P	F.90	5	0.40	—	—	—	—	"
KLM P	F.100	93	1	15	3.10	—	—	"
KLM P	F.110	63	2 B	7	5	—	—	"
KLM P	F.120	79	3.60	—	—	—	—	"
KLM P	F.130	40	8 B	8	14	—	—	"
KLM P	F.140	—	—	5	20 A	—	—	"
NATN C	F.115	—	—	3	4	5	6.50	F.110.10
NATN P	F.110	7	3.50	—	—	—	—	"
PHIL C	F.17.50	—	—	46	5.70	—	—	F.22.30
PHIL C	F.20	25	2.60	58	3.60	95	4.50	"
PHIL C	F.22.50	572	1	279	2.20	19	3	"
PHIL P	F.20	10	0.30	—	—	—	—	"
PHIL P	F.22.50	50	0.90	70	1.10	30	1.40	"
RD C	F.90	45	4.50	27	7	—	—	F.89.70
RD C	F.95	59	2.40 A	—	—	—	—	"
RD C	F.100	127	1.30 A	11	3	5	5.50	"
RD C	F.110	108	0.30	110	1.50	—	—	"
RD P	F.80	16	0.60	5	1.80 B	—	—	"
RD P	F.90	175	3.70	6	6 A	—	—	"
RD P	F.95	111	6.80	—	—	—	—	"
UNIL C	F.100	—	—	4	12	—	—	F.146.10
UNIL P	F.150	24	4.50	25	5.60	—	—	"
UNIL P	F.160	4	1	—	—	4	3.70 B	"
		Aug.		Nov.		Feb.		
BOEI C	$35	—	—	11	2	—	—	$32⅞
BOEI P	$30	—	—	10	⅞	—	—	"
BASF C	DM.130	—	—	—	—	2	7	DM136.70
SIEM C	DM.260	—	—	4	4.60	—	—	DM245
TOTAL VOLUME IN CONTRACTS					3836			

A=Ask B=Bid C=Call P=Put

Companies and Markets

BIDS AND DEALS

Tunnel again dismisses Thos. Ward final offer

Tunnel Holdings, the cement and chemicals company, has again dismissed a higher offer from Thos. W. Ward. It describes the paper values as "illusory and unacceptable" and the cash offer as "significantly below" the current market price.

Tunnel is to send a further letter to shareholders shortly which will give a profits forecast for the current year.

Ward, a building materials and engineering company, already holds Tunnel ordinary shares carrying over 40 per cent of the votes.

In a circular to shareholders yesterday detailing the revised bid, under which it is offering two of its shares plus 220p in cash for each Tunnel "A" or "B" ordinary share, Ward says a wider choice is available to Tunnel shareholders.

"The basic terms offer you Ward ordinary shares and cash in fixed proportions. If you want more Ward ordinary shares and less cash you can take advantage of the share election.

"If you want more cash and less Wad ordinary shares you can take advantage of the cash election and receive your entire consideration in cash."

Yesterday Tunnel's "B" shares stood at 448p, down 2p, while Ward's stood at 121p.

Shareholders are told that "without our offers the market price will almost certainly fall back again."

The circular adds: "If our offers do not succeed for lack of acceptances, we shall seriously have to consider whether we remain a shareholder in Tunnel.

"If our shareholding in Tunnel were sold to other investors, the market price of Tunnel ordinary shares would be depressed for some time by such a large sale of shares, perhaps severely so."

The terms include a 60p cash offer for each Tunnel 3.85 per cent preference share and 55p cash for each 3.5 per cent preference share.

On the ordinary offers shareholders are told "there is no further offer for you to wait for." Under the rules of the City Code on takeovers and mergers they cannot be increased.

GEC SALE TO ACROW

Agreement has been reached in principle for the sale of Simplex of Cambridge, a GEC company, to E H Bental and Co, a wholly subsidiary of Acrow.

Simplex manufactures agricultural, grain and sealed storage equipment. Bentalls makes grain handling, storage and drying and coffee plantation equipment.

It is intended to continue all the products of both companies.

The sale will not include Simplex's milking equipment subsidiary, Hosier Equipment (Collingbourne) Ltd, or Simplex of Ireland.

Lex buys U.S. electronics group

Lex Service Group is expanding its interests in the U.S. with the planned acquisition of Schweber Electronics Corporation, a Long Island-based electronic components distribution concern.

A conditional agreement has been signed for Lex to acquire all Schweber's share capital, together with some freehold properties, for $48.75m. The purchase, expected to be completed by the end of the year, requires Lex to pay $39.75m in cash on completion and the balance within two and a half years.

Lex, whose interests range from hotels to car and components distribution—it is the sole UK concessionaire for Volvo—has a market value of about £56m. It made £12.8m profit last year on a turnover of £503m, a sharp drop from the £22.8m of 1979.

The Schweber acquisition has been prompted by pessimism about the prospects for the UK economy. Like a number of major UK vehicle component manufacturers, Lex is looking to the U.S. as its principal area of expansion.

In 1979 it bought two vehicle parts distribution businesses in California. Together with other U.S. interests, including hotels now sold or being sold, they contributed £36m to last year's turnover.

The venture into the electronics business is regarded as a new avenue for growth but one appropriate to the group's existing business skills. Schweber is involved only in the distribution, not manufacture, of components.

Lex concedes that what, for the company, is a very large acquisition "will take a long time to swallow." But the Schweber purchase price is being largely offset by a number of major divestments. Within the past year it has sold its interest in United Carriers (£8m), the Whitehall Hotel, Houston (£2½m) and Harvey Plants crane fleet (about £3m).

It is also well advanced with selling off hotels in New Orleans and Baltimore, and a conditional agreement has been signed for Volvo North America to acquire a 50 per cent interest in one of Lex's U.S. car parts distribution companies.

The Schweber deal is subject to an audit and the approval of Lex shareholders.

Schweber was founded in 1952 and is said to be the largest privately-owned electronic components distributor in the U.S. It operates from 23 locations and has a range of franchises covering semiconductors, microprocessors and computer peripherals. Its directors and senior managers have agreed to continue with the company.

During the 1970s the U.S. electronic components distribution business has grown by an average 17 per cent a year, but volume and profits have been affected by recession during the past 12 months. Schweber's sales last year totalled $170m, with profits, after tax and interest, of $3.67m.

Gamma steps up Hield terms

The Chamsi Bacha family has raised the stakes for control of the loss-making Bradford based worsted cloth manufacturer, Hield Brothers.

Bidding through an Isle of Man based company, Gamma Beta Investments, the Middle Eastern textile trading concern is now offering 13½p in cash for each Hield ordinary share and 62p in cash for each 4½ per cent cumulative preference stock unit.

The revised terms compare with Gamma Beta's initial offer of 10½p in cash for the Hield ordinary and 55p cash for the preference. This was topped at the end of last week by Hield's biggest shareholder, Stroud Riley Drummond which countered with a bid worth over £2m comprising one of its own shares and 18p in cash for each Hield ordinary. That valued Hield's shares at 13.2p, against a cash alternative of 11½p, and preference holders were offered 60p in cash.

In the market, however, Hield's price was looking for a further initiative from SRD as the shares added 1p yesterday to 14p. All the same the Hield board is now prepared to accept the new Middle Eastern terms, on the advice of Charterhouse Japhet, and urges other holders to ignore SRD's offer.

AIR CALL SELLS PONY EXPRESS

Air Call has exchanged contracts for the sale of its courier services business, Pony Express International, to Security Services, for £300,000 cash.

Net assets of Pony Express at end 1980 were £41,627. For 1980 Pony Express showed a net loss £31,546.

Referring to the costly delays and operating problems in introducing new equipment, Mr. J. O. Stanley, the chairman of Air Call, said: "The company has issued proceedings against Marconi Communication Systems and is to claim substantial damages. The legal proceedings are taking their course."

Ladbroke £1.89m deal

Ladbroke Group, the leisure, property and betting concern, is buying Wallis's Cayton Bay Holiday Camp, in a deal worth £1.89m.

Ladbroke said yesterday that it had received irrevocable undertakings in respect of the majority of the ordinary capital of Wallis's, a private company which owns and operates a holiday centre in Scarborough.

The offers, which have been recommended by Wallis's chairman and directors, are of cash with an alternative of Ladbroke 8 per cent guaranteed unsecured loan stock 1990/92.

On completion of the acquisition, Ladbroke's holiday division intends to extend the accommodation and facilities available and to spend a further £2m on the centre in the next three years.

More than 3,000 people can be accommodated at Wallis's holiday centre.

LONDON TRADED OPTIONS

May 26 Total Contracts 701

Option	Ex'rcise price	July Closing offer	July Vol.	Oct. Closing offer	Oct. Vol.	Jan. Closing offer	Jan. Vol.	Equity close
BP	390	28	—	42	2	58	—	392p
BP	420	13	6	28	4	44	—	"
Com. Union	140	21	5	25	—	30	—	158p
Com. Union	160	9	2	15	1	17	—	"
Com. Union	180	2	—	7	14	9	10	"
Cons. Gold	500	42	—	57	14	70	14	515p
Cons. Gold	550	20	—	35	1	45	—	"
Cons. Gold	600	8	—	18	—	—	—	"
Courtaulds	50	18	8	22	—	—	—	67p
Courtaulds	60	10	4	13	—	16	—	"
Courtaulds	70	4½	24	8	13	11	—	"
Courtaulds	80	1½	10	5	40	6½	—	"
GEC	500	183	5	—	—	—	—	670p
GEC	600	83	3	103	—	—	—	"
GEC	650	48	6	68	16	95	—	"
GEC	700	17	9	40	—	65	—	"
Grand Met.	180	33	7	—	—	36	—	197p
Grand Met.	200	10	3	17	—	24	2	"
Grand Met.	220	3	—	8	—	12	—	"
ICI	260	27	2	35	2	46	1	263p
ICI	300	14	2	25	1	36	—	"
ICI	330	6½	6	13	2	25	—	"
Land Sec.	390	21	5	35	10	47	—	402p
Land Sec.	460	1½	—	10	—	—	—	"
Marks & Sp.	120	16	10	22	15	—	—	133p
Marks & Sp.	130	9	3	13½	11	18	—	"
Marks & Sp.	140	4	20	11½	11	15	11	"
Shell	390	22	2	36	8	45	—	398p
Shell	420	12	9	26	2	34	—	"
Totals			134		143		87	
		May		August		November		
Barclays Bk.	420	—	—	15	—	20	1	395p
Imperial Gp	70	2	—	7	3	8½	5	71p
Imperial Gp	80	1	10	3½	1	5½	—	"
Imperial Gp	90	½	2	1½	—	2	—	"
Lasmo	600	6	1	57	4	84	5	594p
Lasmo	650	—	1	42	3	63	—	"
Lasmo	700	—	—	26	—	45	—	"
Lasmo	750	½	13	15	—	35	—	"
Lonrho	80	13	5	—	—	—	—	92p
Lonrho	90	3½	25	9	33	12½	1	"
Lonrho	100	½	3	4½	22	7½	5	"
Lonrho	110	½	10	2	5	4	5	"
P & O	130	—	5	—	—	—	—	138p
P & O	140	—	—	6	—	9½	—	"
Racal Elec.	330	36	7	50	2	64	—	364p
Racal Elec.	360	7	26	29	26	45	1	"
Racal Elec.	390	1	3	15	3	25	3	"
RTZ	454	82	—	—	—	—	—	532p
RTZ	500	42	2	67	—	80	—	"
RTZ	550	4	11	32	33	37	—	"
Totals			138		168		67	

MINING NEWS

De Beers to reduce its diamond production

BY KENNETH MARSTON, MINING EDITOR

BECAUSE of the depressed market conditions, diamond output is to be reduced by South Africa's De Beers Consolidated Mines, the world's biggest producer and marketer—via the group's Central Selling Organisation—of rough diamonds.

At the De Beers' annual meeting in Kimberley, the chairman, Mr. Harry Oppenheimer, said that while the CSO had substantially reduced its offerings of diamonds to the market, sales remained at a low level and considerable stocks were being accumulated. "We do not anticipate any improvement until well into the second half of this year," he added.

"The financial strength and diversified investments of the company enable us to meet these difficult conditions in the knowledge that we will be able to sustain the stability of the market and the price of diamonds until general economic conditions improve."

While Mr. Oppenheimer gave no indication of the extent of the production cutback it would be reasonable to suppose that this is in the order of 5 per cent in terms of caratage and may apply especially to the larger gems of over one carat. In which case the mines most affected might include major gem producers such as Consolidated Diamond Mines of South West Africa.

Although there are tentative signs of a recovery in demand for the very small gem stones, the larger sizes—which come into the investment category—have been hit by the rise in interest rates, notably in the U.S. which accounts for about one-third of the world retail trade in gem diamonds.

A reduction in diamond production will ease the pressure on the group's CSO which markets and sets the prices for over 80 per cent of the world output of uncut diamonds mined by De Beers and other producers.

The CSO undertakes to purchase a guaranteed minimum quantity of diamond production—whatever the state of the market—and regulates the subsequent marketing of the stones in order to preserve price stability. Since it was formed in 1930 by the late Sir Ernest Oppenheimer, the CSO has never allowed the price of rough diamonds to fall.

However, stockpiling diamonds at periods of low demand requires great financial strength and last year the value of stocks held by the CSO rose by R288m to R686m (£399m), while the world value of rough diamond sales amounted to R2.14bn, of $2.72bn.

This is not the first time the De Beers has reduced diamond production. In 1971 output at certain of the South African operations was adjusted to meet changed requirements of the market.

The latest cutback is expected to be only a temporary development and it does not alter the group's long-term expansion in productive capacity. This envisages an annual output capacity of around 19m carats by 1985 compared with 14.7m carats last year; the latter total has more than doubled over the past 15 years.

Following the latest news De Beers shares fell 9p to 400p in London yesterday.

SWCM keeping its eggs warm

A NET PROFIT of £269,000, equal to 1.16p per share, has been earned by South West Consolidated Minerals, the Dundonian subsidiary which has branched out into Cornish tin and other world mineral interests, in its first year as a public company.

Last June, 25 per cent of SWCM shares was offered to the public at 50p in an over-subscribed issue and after falling in the interim period to 25p at one time they were back to 44p yesterday.

Mr. Max Lewinson, chairman of SWCM, said yesterday that profits should build up quite strongly in the current year to March 31 with about half coming from the Thailand tin and tantalite processing operation and the rest being equally divided between the recently-acquired U.S. oil and gas interests and investment revenue.

But he did not anticipate any consideration of dividends until at least 12 months' time. Although the Thailand tin-tantalite operation is running at only 50 per cent of capacity, it is making money after having started commercial production in March. SWCM says that this activity is expected to make a "significant contribution" to future earnings.

The company's Cornish tin hopes have particularly fired UK investment interest and the most important of these is the £15m Redmoor tin-tungsten-lead-silver venture just outside Callington which is now awaiting planning permission. It s still reckoned to be capable of breaking even with a tin price of £5,000 per tonne; the metal was £6,080 yesterday.

Planning permission together with a decision to go ahead with exploratory shaft sinking is expected before the end of this year and, if all goes well, the new mine could be in production by 1984. Prior to a decision to go to production, SWCM would need to raise new finance but this would not necessarily need much of a call upon shareholders.

Cominco merger for Lake Zone

CANADA'S Cominco is taking further steps to facilitate the development of its huge Lake Zone copper deposit in the Highland Valley district of British Columbia. Cominco proposes to amalgamate with its two controlled companies owning orebodies in the area, the 82 per cent-held Valley Copper Mines and the 97 per cent-held Bethlehem Copper Corporation.

Cominco is offering one non-voting redeemable preferred share for each common share of Valley or Bethlehem. Under the deal Valley shareholders may immediately redeem their Cominco shares for C$33 each while those of Bethlehem may settle for C$37.50.

Valley and Bethlehem together own the Lake Zone deposit which is estimated at 800m short tons of ore averaging 0.475 per cent copper plus recoverable amounts of molybdenum, gold and silver.

Because of the scale of the C$750m (£293m) venture and the risks and financing considerations involved, Cominco says that Valley and Bethlehem shareholders will be better placed under an amalgamation with Cominco.

The new mine will produce about 2.5m lb of copper contained in concentrate per year.

Charles Hill bidder emerges

A CONSORTIUM headed by Mr Alastair Milne, a director of Phoenix Mining and Finance, has emerged as the bidder for Charles Hill of Bristol, the loss-making civil engineering and ship repairing group. It has reached agreement with the board of Charles Hill to buy the company for £1.17m.

A Stock Exchange inquiry is continuing into the sharp movement of Charles Hill's shares ahead of the announcement earlier this month that discussions were in progress with a then unnamed possible buyer.

Charles Hill's shares rose 16p to 108p yesterday on the news of the consortium's bid.

The consortium, made up of individual members together with clients of Energy Finance and Montagu Loebl, includes Mr W. F. O'Hara, the managing director of Phoenix Mining and Finance, and Mr B. Fulwell, a Bristol solicitor. It is envisaged that Mr Milne will become chairman of Charles Hill.

Charles Hill shareholders are being offered 100p in cash for each of their shares. No offer is being made for the 6 per cent cumulative preference shares of £1 each.

Certain shareholders, including some directors, have irrevocably undertaken to accept the offer in respect of 304,079 ordinary shares, representing some 26 per cent of the issued capital.

It is the intention of the consortium to seek to maintain the Stock Exchange listing of the ordinary shares. A substantial proportion of those acquired under the offer will be placed with clients of both Energy Finance and Montagu Loebl.

If the offer becomes unconditional Mr. R. Hill, chairman, and Mr. J. Hill, deputy chairman, will retire as directors. They will be paid £22,000 and £11,000 respectively for the termination of their service contracts.

Mr. R. Hill has agreed to continue for a limited time as a consultant. All the other directors will retire, with the exception of Mr J. G. Luckwell and Mr B. E. Rasche.

BERISFORD OFFER ACCEPTANCES

The board of Berisford has announced that, in respect of the offer to acquire the whole of the issued share capital of British Sugar not already owned by Berisford, acceptances have been received from holders of 126,732 (0.21 per cent) British Sugar shares.

Berisford is beneficially interested in 5,569,000 (9.28 per cent) British Sugar shares but has not otherwise acquired or agreed to acquire any further British Sugar shares since April 22, 1981.

The offer has been extended until June 9, 1981, 3.00 pm.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
‡†RENFE	100	1989	8	9½◊	100	Mitsui Fin. Europe, Kredietbank Societe Generale	9.726◊
‡†Korea Develpmnt. Bk.	30	1989	8	7½◊	100	CSFB	7.641◊
†European Asian Cap. NV	40	1989	8	6◊	100	Merrill Lynch	6.860◊
‡Swedish Export Credit Corp.	50	1986	5	15¾	99½	Morgan Stanley	15.902
Hiram Walker Hldgs. NV	50	1986	5	*	*	S.G. Warburg	16.00
‡G.T.E. Finance NV	50	1986	5	15¾	100	Orion	15.625
†G.Z.B.	50	1992	11	5¼◊	100	S.G. Warburg	5.319◊
‡†Banco Nacional de Desarollo	70	1987	6	9½◊	100	CSFB	9.726◊
‡Tordom Corp.	25	1986	5	15½	100	Morgan Stanley	15.500
City of Winnipeg	50	1988	7	15¾	*	Wood Gundy	*
‡Bank of Nova Scotia	25	1986	5	15½	99½	Morgan Stanley	15.651
†Banco Latino Americano de Exportaciones	30	1986	5	7◊	100	Manufacturers Hanover	7.123◊
§Tadano Tekkosho	20	1996	15	6¼	100	Daiwa Securities	6.500
‡†Banque Nationale de Paris	200	1996	—	7½◊	99¾	BNP	7.684◊
SWISS FRANCS							
‡Copenhagen County Authority	50	1991	—	6¼	100	Soditic	6.500
‡§Lonrho Intl. Fin. NV	60	1991	—	8	100	Keyser Ullmann, Nordfinanz, Kredietbank	8.000
‡EIB	80	1991	—	7½	99½	UBS	7.610
‡Asian Development Bank	80	1991	—	7¾	100	SBC	7.750
‡**Kubota	20	1987	—	7¾	100	SBC	8.056
‡**Kubota	40	1986	—	7¾	99½	SBC	8.054
‡**§Mitsubishi Chemical Industries	70	1986	—	4¼	100	SBC	4.625
‡**VEW	50	1986	—	7¾	100	UBS	7.625
‡Nippon Tel. & Tel.	100	1991	—	7¼	100	Credit Suisse	7.125
‡**§Olympus Optical	80	1986	—	4¼	100	Credit Suisse	4.375
City of Vienna	100	1991	—	7¾	100	Kredietbank (Suisse)	7.750
STERLING							
‡Hydro Quebec	40	2011	30	15	96¾	S.G. Warburg	15.51
§Nissan Motor Co.	50	1996	15	6	100	S.G. Warburg	6.060
NORWEGIAN KRONER							
Eksportfinans	100	1986	5	11½	99	Bergen Bank	11.525
ECU							
EIB	40	1989	8	13	100	Kredietbank	13.000
YEN							
‡Australia	20bn	1993	10.3	8.5	99.45	Nomura Securities	8.758

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ◊ Minimum. § Convertible.
Note: Yields are calculated on AIBD basis.
This table was misprinted in Tuesday's edition, and has been updated to include new issues and final terms announced yesterday.

Companies and Markets

CURRENCIES, MONEY and GOLD

Dollar firm

Dollar was firm in quiet foreign exchange trading yesterday. A sharp fall in Eurodollar interest rates following the announcement on Friday of a larger than expected decline in the weekly U.S. money supply had little impact on the U.S. currency, which continued to gain ground against the D-mark, sterling and the Italian lira. Concern about events in Poland and nervousness over the Middle East may have given some support to the dollar, although it tended to weaken in late European trading reflecting the lower trend in U.S. Federal funds interest rates.

Sterling continued to weaken against the strong dollar, but was unchanged on balance against major currencies, and touched its highest level since February against the D-mark.

European currencies lost ground to the dollar, with the D-mark and lira particularly weak, but the French franc showed a sharp improvement within the European Monetary System.

DOLLAR — trade-weighted index (Bank of England) rose to 107.1 from 106.7. The U.S. currency touched its highest level for nearly four years against the D-mark, rising to DM 2.3425, before closing at DM 2.3335, compared with DM 2.3160 on Friday. The dollar was unchanged at SwFr 2.0750 against the Swiss franc, but fell to FFr 5.5425 from FFr 5.58 in terms of the French franc.

STERLING — trade-weighted index (Bank of England) was unchanged at 98.8, after opening at 98.7 and rising to 98.9 at noon. The pound opened at \$2.0670-2.0680, and touched a peak of \$2.0730-2.0740, before easing to \$2.0640-2.0650 in the afternoon, and closing at \$2.0665-2.0675, a fall of 60 points from Friday, and the lowest closing level since November 2 1979.

D-MARK—Strongest member of the European Monetary System but the sudden fall of the French franc has led to sales of D-marks to maintain EMS agreed limits, causing the German currency to weaken against the dollar. The rise in U.S. interest rates has also depressed the D-mark leading to speculation about an increase in the Bundesbank special Lombard rate—The D-mark weakened against most major currencies at the Frankfurt fixing. The dollar was fixed at DM 2.3299, the highest level since September 1977, and a rise from DM 2.3135 on Monday. The Bundesbank sold \$25.1m at the fixing and was also active on the open market. By mid-afternoon, after the opening of the New York market, the dollar remained in demand at DM 2.3330. Sterling was also very strong, rising to DM 4.83 from DM 4.79 at the fixing, the highest level since February. The French franc also advanced, and was fixed at DM 41.80 per FFr 100, compared with DM 41.69 on Monday. Last week the French currency was generally around its EMS floor level of DM 41.5050.

ITALIAN LIRA—One of the stronger members of the EMS at present after the 6 per cent devaluation earlier this year. It has fallen to a record low against the dollar however, as U.S. interest rates continued to rise—The resignation of the Italian Government had little impact on the lira, which was slightly firmer against most European currencies at the Milan fixing. The weakness of the Italian currency against the dollar is giving rise to some concern however, and has caused a sharp fall in the Bank of Italy's official reserves in recent months. At yesterday's Milan fixing, the dollar rose to a record level of L1,157.05, from L1,149.55 on Monday. Within the EMS the French franc was firm, rising to L207.89 from L206.85, but other members of the system were weaker against the lira, although the D-mark was unchanged at L496.5. Sterling eased to L2,382.5 from L2,383.

THE DOLLAR SPOT AND FORWARD

May 26	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.0640-2.0740	2.0665-2.0675	1.25-1.35c dis	−7.55	3.45-3.55dis	−6.77
Ireland†	1.5640-1.5880	1.5655-1.5675	0.40-0.50c dis	−3.45	1.15-1.25dis	−3.06
Canada	1.2001-1.2015	1.2008-1.2011	0.13-0.08c pm	1.05	0.14-0.09 pm	0.38
Nethlnd.	2.5890-2.5955	2.5890-2.5920	1.35-1.25c pm	6.02	4.00-3.90 pm	6.09
Belgium	37.96-38.03	37.98-38.00	5-2c pm	1.10	10-5 pm	0.79
Denmark	7.3200-7.3385	7.3310-7.3325	1¾-1½ore pm	2.66	6½-6 pm	3.41
W. Ger.	2.3200-2.3425	2.3330-2.3340	1.11-1.05pf pm	5.55	3.22-3.18 pm	5.47
Portugal	61.30-61.70	61.50-61.70	par-30c dis	−2.92	20pm-60dis	−1.30
Spain	92.30-92.53	92.30-92.35	5-20c dis	−1.64	25-45 dis	−1.53
Italy	1155-1157½	1156-1157	4-6lire dis	−5.18	11-14 dis	−4.32
Norway	5.7150-5.7435	5.7255-5.7275	2¾-2¼ore pm	5.24	8-7½ pm	5.41
France	5.5200-5.5950	5.5400-5.5450	3¾-4¾c dis	−8.66	4¾-5¾ dis	−3.97
Sweden	4.9425-4.9570	4.9425-4.9450	1.10-0.90ore pm	2.42	3.60-3.40 pm	2.82
Japan	223.50-225.00	224.35-224.45	2.50-2.35y pm	12.97	6.60-6.45 pm	11.63
Austria	16.47-16.50¾	16.49¾-16.50¼	9.90-8.40gro pm	6.65	27.00-23.00pm	6.06
Switz.	2.0720-2.0820	2.0745-2.0755	1.47-1.37c pm	8.21	4.25-4.15 pm	8.10

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

May 26	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.0640-2.0740	2.0665-2.0675	1.25-1.35c dis	−7.55	3.45-3.55dis	−6.77
Canada	2.4780-2.4860	2.4810-2.4820	1.55-1.65c dis	−7.74	4.00-4.20dis	−6.61
Nethlnd.	5.34-5.38	5.35¼-5.36¼	½-1½c dis	−2.24	¾-1¼ dis	−0.56
Belgium	78.45-78.85	78.50-78.60	33-43c dis	−5.80	107-117 dis	−5.70
Denmark	15.13-15.19	15.16-15.17	4¾-5¾ore dis	−4.20	12¾-14¾dis	−3.48
Ireland	1.3170-1.3265	1.3180-1.3190	0.38-0.52p dis	−4.09	1.17-1.32dis	−3.78
W. Ger.	4.81-4.84	4.82-4.83	½-1pf dis	−1.86	1¼-1¾ dis	−1.24
Portugal	126.00-127.50	127.00-127.20	80-150c dis	−10.86	180-355 dis	−8.42
Spain	190.70-191.60	191.15-191.35	140-175c dis	−9.88	405-450 dis	−8.94
Italy	2387-2397	2391½-2393½	23½-25½lire dis	−12.29	63-66 dis	−10.78
Norway	11.81-11.89	11.81-11.82	2-3½ore dis	−2.86	5¾-7 dis	−2.16
France	11.45-11.57	11.45-11.46	14¾-15¾c dis	−15.65	28¾-30¾dis	−10.39
Sweden	10.21-10.27	10.21½-10.22½	4¾-5¾ore dis	−5.58	10¾-11¾dis	−4.40
Japan	460-467	463½-464½	2.50-2.20y pm	6.08	5.82-5.27 pm	4.78
Austria	34.03-34.18	34.08-34.13	1-6gro dis	−1.23	1-12 dis	−0.76
Switz.	4.28-4.32	4.28¾-4.29¾	1c pm-par	1.40	2¼-1¾ pm	1.63

Belgian rate is for convertible francs. Financial franc 79.95-80.05. Six-month forward dollar 5.10-5.20c dis. 12-month 7.70-7.90c dis.

CURRENCY MOVEMENTS

May 26	Bank of England Index	Morgan Guaranty Changes%
Sterling	98.8	−26.9
U.S. dollar	107.1	+1.1
Canadian dollar	87.3	−17.5
Austrian schilling	112.0	+21.5
Belgian franc	106.2	+9.0
Danish kroner	86.2	−12.2
Deutsche mark	117.4	+38.3
Swiss franc	133.6	+77.4
Guilder	108.8	+13.7
French franc	85.4	−11.4
Lira	58.0	−55.5
Yen	141.6	+56.3

Based on trade weighted changes from Washington agreement December, 1971. Bank of England Index (base average 1975=100).

CURRENCY RATES

May 22	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	12	0.558567	0.529815
U.S. $	14	1.17164	1.09248
Canadian $	19.06	1.40579	1.31294
Austria Sch	6¾	19.1411	17.9440
Belgium F	14	44.2441	41.3612
Danish K	11	8.49908	7.95416
D mark	7½	2.71352	2.53564
Guilder	9	3.02049	2.81859
French Fr	9½	—	6.10914
Lira	19	1348.56	1258.26
Yen	6¼	261.159	243.349
Norwgn. Kr	9	6.68186	6.25662
Spanish Pts	8	107.674	100.563
Swedish Kr	12	5.75158	5.39848
Swiss Fr	5	2.42588	2.26143
Greek Dr'ch	20½	—	61.4191

OTHER CURRENCIES

May 26	£	$		£ Note Rates
Argentina Peso	6719-6739	3250-3260	Austria	33.90-34.25
Australia Dollar	1.8130-1.8170	0.8780-0.8785	Belgium	79.35-80.05
Brazil Cruzeiro	174.35-175.35	84.26-84.68	Denmark	15.07-15.22
Finland Markka	9.02-9.05	4.3660-4.3680	France	11.50-11.58
Greek Drachma	115.57-118.86	56.65-56.75	Germany	4.80¾-4.83¾
Hong Kong Dollar	11.30¼-11.32¼	5.4710-5.4740	Italy	2340-2390
Iran Rial	162.70*	78.70*	Japan	462-468
Kuwait Dinar(KD)	0.573-0.578	0.2785-0.2787	Netherlands	5.33½-5.36½
Luxembourg Frc	78.50-78.60	37.98-38.00	Norway	11.83-11.93
Malaysia Dollar	4.85-4.86	2.3475-2.3495	Portugal	124-128
New Zealand Dlr	2.3605-2.3650	1.1420-1.1430	Spain	185-195¾
Saudi Arab. Riyal	6.98-7.04	3.3900-3.3920	Sweden	10.22-10.32
Singapore Dollar	4.46-4.47	2.1590-2.1610	Switzerland	4.28-4.32
Sth African Rand	1.7515-1.7555	0.8475-0.8485	United States	2.06¼-2.07¼
U.A.E. Dirham	7.58-7.62	3.6720-3.6740	Yugoslavia	74½-82

Rate given for Argentina is free rate. * Selling rate.

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU May 26	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	40.7985	41.4579	+1.62	+1.26	±1.5361
Danish Krone	7.91917	8.00249	+1.05	+0.69	±1.6413
German D-Mark	2.54502	2.54409	−0.04	−0.40	±1.1386
French Franc	5.99526	6.06760	+1.21	+0.85	±1.3638
Dutch Guilder	2.81318	2.83046	+0.61	+0.25	±1.5159
Irish Punt	0.685145	0.696194	+1.61	+1.25	±1.6688
Italian Lira	1262.92	1260.89	−0.16	−0.16	±4.1116

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

May 26	Pound Sterling	U.S. Dollar	Deutschem'k	Japan'se Yen	French Franc	Swiss Franc	Dutch Guild'	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	2.067	4.825	464.0	11.455	4.290	5.363	2393.	2.482	78.55
U.S. Dollar	0.484	1.	2.334	224.5	5.542	2.075	2.594	1157.	1.201	38.00
Deutschemark	0.207	0.428	1.	96.17	2.374	0.889	1.111	495.9	0.514	16.28
Japanese Yen 1,000	2.155	4.455	10.40	1000.	24.69	9.246	11.56	5156.	5.348	169.3
French Franc 10	0.873	1.804	4.212	405.1	10.	3.745	4.681	2089.	2.166	68.57
Swiss Franc	0.233	0.482	1.125	108.2	2.670	1.	1.250	557.7	0.578	18.31
Dutch Guilder	0.186	0.385	0.900	86.55	2.136	0.800	1.	446.2	0.463	14.65
Italian Lira 1,000	0.418	0.864	2.017	193.9	4.788	1.793	2.241	1000.	1.037	32.83
Canadian Dollar	0.403	0.833	1.944	187.0	4.616	1.729	2.161	964.1	1.	31.65
Belgian Franc 100	1.273	2.631	6.143	590.7	14.58	5.461	6.827	3046.	3.159	100.

FT LONDON INTERBANK FIXING (11.00 a.m. MAY 26)

3 months U.S. dollars		6 months U.S. dollars	
bid 19 1/4	offer 19 3/8	bid 17 7/8	offer 18

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for \$10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

May 26	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Belgian Franc Convertible	Japanese Yen
Short term	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	20-22	[illegible]	15-17	[illegible]
7 days' notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24-26	[illegible]	15-17	[illegible]
Month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	24-26	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21-22	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19-20	[illegible]	[illegible]	[illegible]
One Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18-19	[illegible]	16-17	[illegible]

SDR linked deposits: one-month [illegible] per cent; three-months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. ECU linked deposits: one-month [illegible] per cent; three months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. Asian \$ (closing rates in Singapore): one-month [illegible] per cent; three-months [illegible] per cent; six-months [illegible] per cent; one-year [illegible] per cent. Long-term Eurodollar two-years [illegible] per cent; three-years [illegible] per cent; four-years [illegible] per cent; five-years [illegible] per cent; nominal closing rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two-days' notice. The following nominal rates were quoted for London dollar certificates of deposit: one-month 18.25-18.35 per cent; three-months 18.20-18.30 per cent; six-months 17.20-17.30 per cent; one-year 16.80-16.70 per cent.

INTERNATIONAL MONEY MARKET

German rates firm

German fixed period interest rates showed a firmer trend yesterday, although call money eased slightly to 11.60-12.00 per cent from 11.90-12.00 per cent. Ample liquidity has kept call money below the 12 per cent special Lombard rate recently, leading to minimal use of the facility and suggestions that the authorities may have to drain funds from the market if U.S. interest rates continue to advance. One-month money was quoted at 13.00-13.15 per cent, compared with 13.00-13.10 per cent, and three-month at 13.30-13.40 per cent against 13.25-13.35 per cent. Six-month money rose to 13.30-13.50 per cent from 13.20-13.40 per cent, while 12-month was slightly firmer at 13.20-13.30 per cent compared with 13.10-13.30 per cent.

In Paris call money remained at 20 per cent. On Friday the Bank of France increased its market intervention rate—the seven-day Treasury bill discount rate—to 22 per cent from 18 per cent as part of official measures aimed at supporting the weak franc.

In Milan the Bank of Italy sold L400bn of three-month Treasury bills from its own portfolio at an average rate of 18.69 per cent, in line with last week's monthly auction. The highest accepted bid was 18.79 per cent. A further L500bn of three-month and six-month bills are on offer for competitive tender today.

UK MONEY MARKET

Rates firm

Bank of England Minimum Lending Rate 12 per cent (from March 10, 1981)

Short-term interest rates were slightly firmer in the London money market yesterday, after a day when funds were in short supply and the authorities gave assistance on a large scale. The Bank of England bought a small amount of eligible bank bills outright from the discount houses, and also purchased a moderate number of bills for resale to the market at fixed future dates. Market sources suggested that the method of help given encouraged an upward trend in rates, with the discount houses buying rates for three-month eligible bank bills rising to 11⅜-11½ per cent from 11¼-11⅜ per cent. On the other hand it was pointed out that the authorities may be concerned to prevent the market becoming too liquid during the civil service dispute.

The major adverse factor yesterday was the call on the 2 per cent index linked Treasury 1996 stock. The market was also faced with a moderate number of bills maturing in official hands.

GOLD

Weaker trend

Gold weakened in fairly active London bullion trading yesterday. It fell \$5½ to close at \$466¼-469¼, after touching a low of \$464-466 in the afternoon, reflecting the firmness of the dollar. The metal opened at \$469-472, the highest point of the day, and fell to \$468.50 at the morning fixing, and \$466.50 in the afternoon, showing little reaction to the tension in the Middle East and Poland.

In Paris the 12½ kilo gold bar was fixed at FFr 93,500 per kilo (\$521.31 per ounce) in the afternoon, compared with FFr 94,000 (\$523.84) in the morning, and FFr 95,000 (\$530.72) Monday afternoon.

In Frankfurt the 12½ kilo bar was fixed at DM 35,225 per kilo (\$470.03 per ounce), against DM 35,140 (\$473.02) previously, and finished at \$465-468.

In Zurich gold also closed at \$465-468.

	May 26		May 22	
Gold Bullion (fine ounce)				
Close	\$466¼-469¼	[illegible]	\$472-475	[illegible]
Opening	\$469-472	[illegible]	\$471-474	[illegible]
Morning fixing	\$468.50	[illegible]	\$472.75	[illegible]
Afternoon fixing	\$466.50	[illegible]	\$472.75	[illegible]
Gold Coins				
Krugerrand	\$482-483	(£233¼-233¾)	\$487-488	(£235¼-235¾)
1/2 Krugerrand	\$248½-249½	(£120¼-120¾)	\$251¼-252¼	(£121¼-121¾)
1/4 Krugerrand	\$126¾-127¾	(£61¼-61¾)	\$128-129	(£61¾-62¼)
1/10 Krugerrand	\$51¾-52¾	(£25-25½)	\$52¼-53¼	(£25¼-25¾)
Mapleleaf	\$477½-478½	(£231-231½)	\$482½-483½	(£233-233½)
New Sovereigns	\$117-117¾	(£56½-57)	\$118¾-119½	(£57¼-57¾)
King Sovereigns	\$125-127	(£60½-61½)	\$128-130	(£62-63)
Victoria Sovs	\$125-127	(£60½-61½)	\$128-130	(£62-63)
French 20s	\$215-219	(£104-106)	\$206-210	(£99½-101½)
50 pesos Mexico	\$582-586	(£281½-283½)	\$588-592	(£284-286)
100 Cor. Austria	\$451-456	(£218¼-220½)	\$458-461	(£220¼-222¾)
\$20 Eagles	\$576-581	(£278¾-281)	\$582-587	(£281-283½)

LONDON MONEY RATES

May 26 1981	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ◊	Eligible Bank Bills ◊	Fine Trade Bills ◊
Overnight	—	10-13⅛	11¾-12	—	—	12¼	11-12	—	—	—
2 days notice	—	—	11⅝-11¾	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	11⅝-11¾	11¾-12	—	12	12⅛-12¼	11½-11⅝	—	—	—
One month	12-11⅞	11⅞-12⅛	11⅞-12⅛	13⅛-12⅞	12⅛	12¼-12⅜	11½-11⅝	11⅝	11½	12½
Two months	12⅛-12⅛	12⅛-12⅜	—	13¼-13	12½	12½	11½-11⅝	11½	11⅝-11¾	12⅝
Three months	12⅛-12⅝	12⅝-12⅞	12⅛	13¼-12⅞	12⅝	12⅝-12⅞	11⅝	11⅝	11⅝-11⅞	12⅝
Six months	12⅝-12⅞	12⅝-12⅞	12¾	13-12⅝	12⅞	13	—	—	11½	12¾
Nine months	12⅝-12⅞	12¾-12⅞	—	13⅝-13⅛	13⅛	13¼	—	—	—	—
One year	12⅞-12⅞	12⅞-13	12⅞-13⅛	13⅛-12⅞	13¼	13⅛	—	—	—	—
Two years	—	—	14	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice others seven days' fixed. Long-term local authority mortgage rates nominally three years 14 per cent; four years 14¼ per cent; five years 14½ per cent. ◊ Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 11⅝-11⅝ per cent; four-months trade bills 12¾ per cent.

Approximate selling rate for one-month Treasury bills 11⅝ per cent; two-months 11⅝ per cent; three-months 11⅝ per cent. Approximate selling rate for one-month bank bills 11⅝ per cent; two-months 11⅝ per cent; three-months 11⅝-11⅝ per cent; one-month trade bills 12⅝ per cent; two-months 12⅝ per cent and three-months 12⅝ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 13 per cent from May 1, 1981. Clearing Bank Deposit Rates for sums at seven days' notice 9 per cent. Clearing Bank Rates for lending 12 per cent. Treasury Bills: Average tender rates of discount 11.3574 per cent.

MONEY RATES

NEW YORK	
Prime Rate	20½
Fed. Fund	17⅞-18⅛
Treasury Bills (13-week)	16.10
Treasury Bills (26-week)	14.93
GERMANY	
Special Lombard	12.0
Overnight Rate	11.80
One month	13.075
Three months	13.35
Six months	13.40
FRANCE	
Intervention Rate	22
Overnight Rate	20
One month	—
Three months	—
Six months	—
JAPAN	
Discount Rate	6.25
Call (Unconditional)	7.125
Bill Discount (three-month)	7.46875

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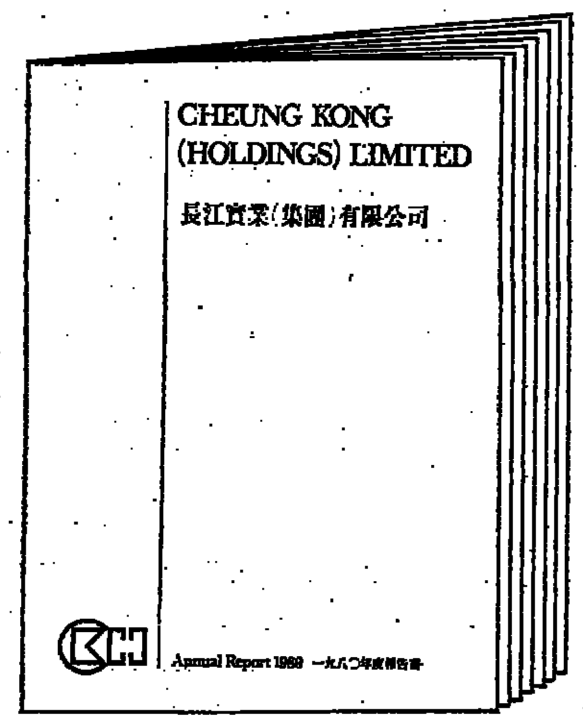
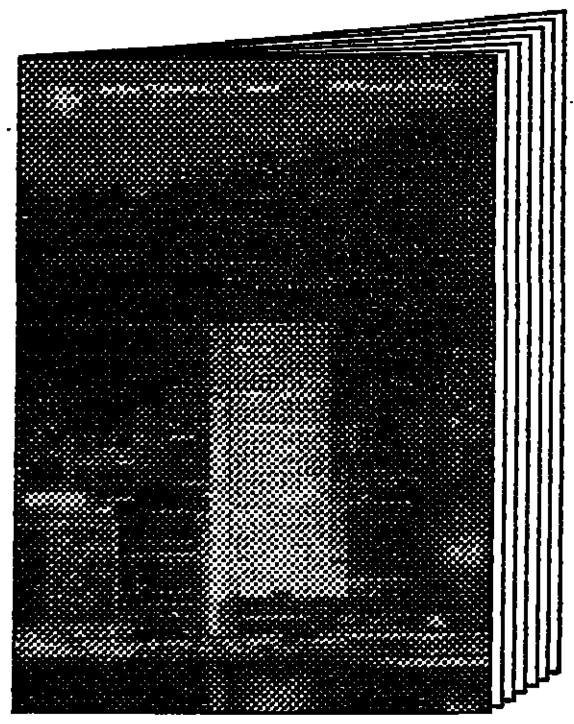
HSBC's principal banking subsidiaries are Marine Midland Banks, Inc. The British Bank of the Middle East, Mercantile Bank Limited, Hang Seng Bank Limited, Wardley Limited and Antony Gibbs & Sons, Limited.
Consolidated profit for 1980 exceeded £116 million; and total assets of the Group now exceed £19.8 billion.



Cheung Kong (Holdings) Limited

- Hong Kong's leading property development and investment holding group.
- 1980 Results:
  Total profits after tax exceed HK$1,500 million; net ordinary profits after tax HK$701 million up 176% over 1979; net Shareholders Funds total HK$2,838 million.
- Associated companies include:
  Canadian Eastern Finance (50%)
  China Cement Co. (Hong Kong) Limited (25%)
  Green Island Cement Co., Limited (40% via a 70% owned subsidiary)
  Hong Kong Hilton Hotel (100%)
  Hutchinson Whampoa Limited (over 40%)
  International City Holdings Limited (34.5%)
- 15.8 million sq. ft. of commercial, office, residential and industrial space currently under planning and construction.

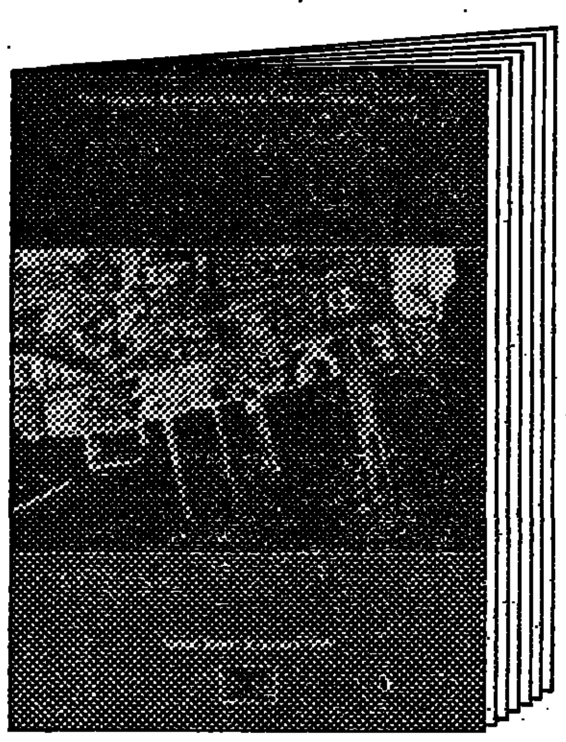


Jardine, Matheson & Co., Ltd

A Hong Kong-based company with diversified interests throughout the Asia/Pacific region and in Europe, North America, Southern Africa and the Middle East. After-tax profit of US$99.4 million in 1980, represented a 26% increase on 1979 earnings. Total profit attributable to shareholders of US$191.0 million. Shares traded on the Hong Kong and London stock exchanges; Group currently has 37,000 shareholders and 17,000 loan stockholders.

Sun Hung Kai Securities Ltd

Sun Hung Kai Securities Limited is the single largest securities dealer in Hong Kong. Established in 1969, its range of services includes equities and bonds, gold and silver, commodities, properties and China Trade. The Company has branch offices in London, Singapore and the People's Republic of China. The net earnings for 1980 reached a record of HK$135.66 million, an increase of 183% over the HK$48.02 million achieved in 1979. There is in addition extraordinary profits of HK$76.54 million. Earnings per share in HK$0.61, an increase of 177% compared with 1979.

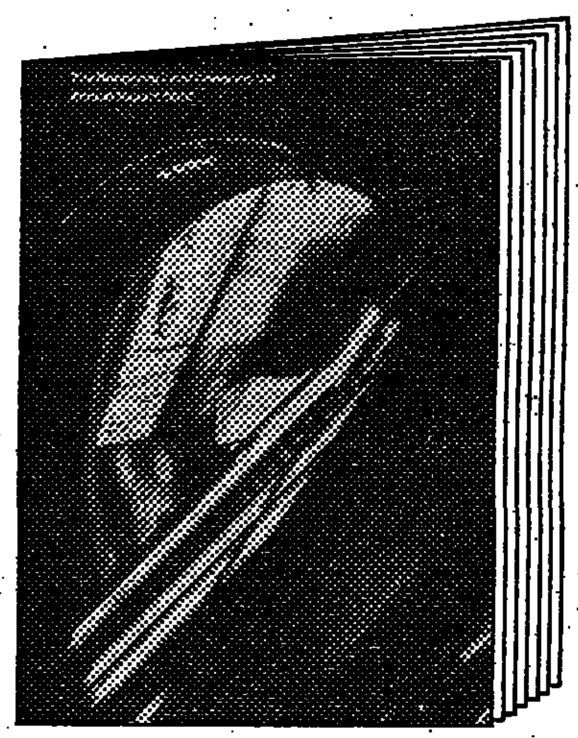


The Hongkong & Kowloon Wharf & Godown Company, Limited

The Hongkong & Kowloon Wharf & Godown Company, Limited is engaged in property investment and development, hotels, public transportation, cargo handling and warehousing. Under the Chairmanship of Sir Yue-Kong Pao since September, 1980, the Company earned the equivalent of approximately £19.6 million during 1980 and extraordinary profits equivalent to approximately £16.4 million.

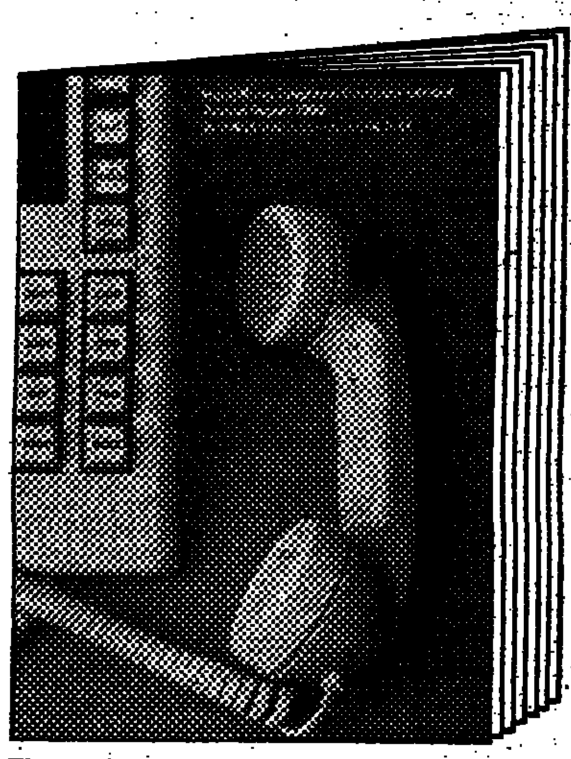
Hong Kong Electric Holdings Limited

The Hongkong Electric Group's principal activities are the generation, transmission and sale of electricity, property development, engineering consultancy, project management services, general trading and electrical and mechanical contracting.



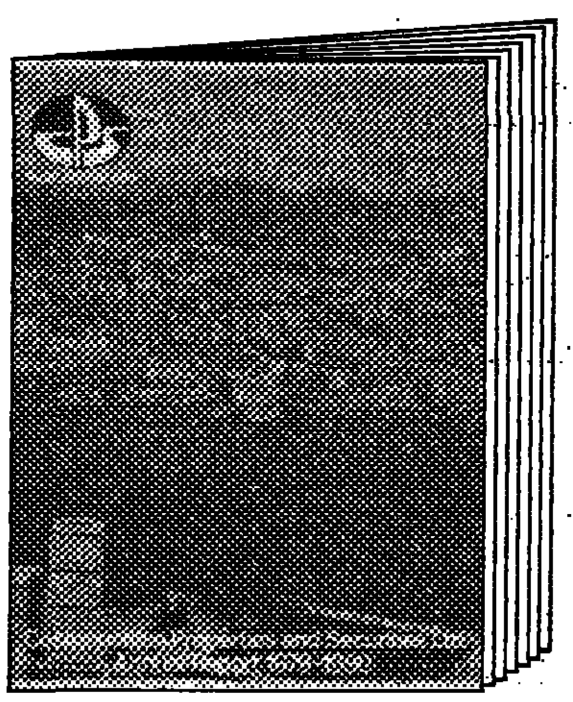
The Hongkong Land Company Limited

Established in 1889 and today one of the largest property companies in the world with food and hotel interests in 14 territories, is excellently positioned for growth with the region. Total profits for 1980 were over £190 million — the largest ever for a Hong Kong Company.



Hong Kong Telephone

Hong Kong Telephone is a publicly listed company with 25,000 Shareholders operating under a Government franchise. Growth in telephones over the past decade has averaged 10% per annum and at the end of 1980 there were nearly 1.7 million telephones giving Hong Kong 33 telephones per 100 population. The Company has a workforce of 11,000 staff and, in addition to basic services, provides Keylines, Computerized Business Systems, Concentrators, Data Transmission, Radio Paging, Viewdata and International facilities.
Turnover in 1980 was HK$1,381 million, while Shareholders' funds at the end of the year stood at HK$1,429 million. The authorized share capital of the Company is 150 million $10 shares of which 69 million are issued. The return on Shareholders' funds was 15.8% in 1980.

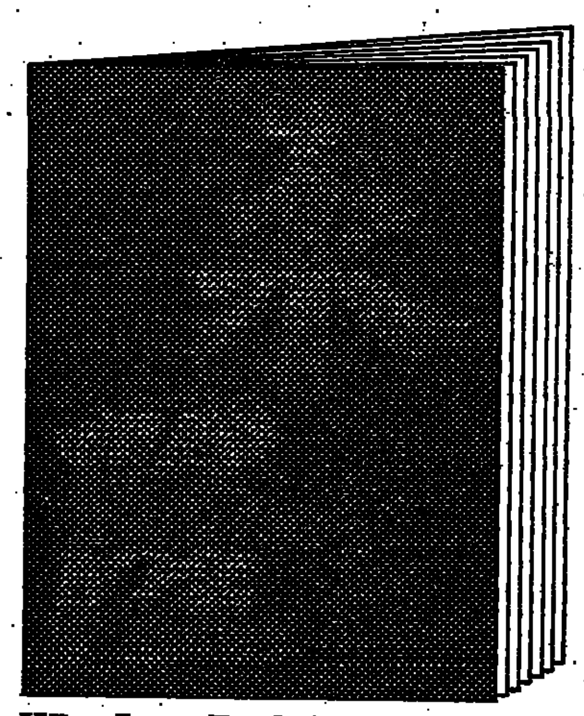


Cosmopolitan Properties & Securities Limited

Following two years of considerably enhanced profitability Cosmopolitan Properties and Securities Limited is well placed for expansion and diversification. Substantial liquidity and increased investment management expertise currently dictate corporate development on an international scale. Recommendations for potential acquisitions preferably in financial services, real estate, publishing and natural resources fields should be directed to the Managing Director, Malcolm A. Burne by principals only.

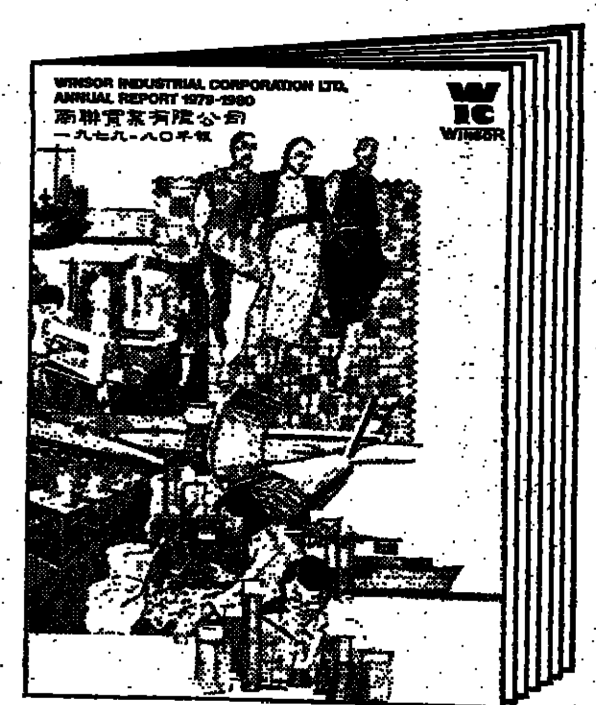
Wardley Limited

Wardley Limited is the merchant banking arm of The Hongkong and Shaghai Banking Corporation and is a wholly owned subsidiary.
The company is a leader in the fields of Wholesale Banking, Corporate Finance, Investment Management Services, Project Financing including Oil and Natural Resources and Export Credit Facilities within the South East Asia Region.
The company's head office is in Hong Kong and has offices in Australia, Japan, the Philippines, Singapore, Thailand, Vanuatu and the Bahamas.



Wing Lung Bank Limited

45 Des Voeux Road, Central, Hong Kong
Established 1933
Chairman: Mr. Jieh-yee Wu
General Manager: Mr. Patrick P. K. Wu
A complete range of banking services provided
1980 highlights:—
Total Assets: HK$3,592,436,525
Total Deposits: HK$2,736,217,233
Net Profit: HK$78,122,658



Winsor Industrial Corporation Limited

Winsor is Hongkong's largest quoted textile company with a balanced and diversified vertical setup extending from fibre to garments and covering cotton, synthetics and wool. Five-year average annual growth rates from 1975/76 to 1979/80: Turnover 15.1%; Earnings per share 22.8%; Dividends per share 15.4%; Net Assets per share 15%.

Just ask

Name ______________________

Position ______________________

Company ______________________

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To the Advertisement Director, Financial Times, Bracken House, 10 Cannon Street, LONDON EC4P 4BY

Please send me the following Annual Reports:

- The Hongkong and Shanghai Banking Corporation ☐
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- Jardine, Matheson & Co., Ltd ☐
- Sun Hung Kai Securities Ltd ☐
- The Hongkong & Kowloon Wharf & Godown Company, Limited ☐
- Hong Kong Electric Holdings Limited ☐
- The Hongkong Land Company Limited ☐
- Hong Kong Telephone ☐
- Cosmopolitan Properties & Securities Limited ☐
- Wardley Limited ☐
- Wing Lung Bank Limited ☐
- Winsor Industrial Corporation Limited ☐

Renault net income hit by squeeze on margins

BY TERRY DODSWORTH IN PARIS

RENAULT, the nationalised French vehicle group, suffered a 37 per cent fall in consolidated profits last year while increasing sales by 17 per cent.

The decline in profits, to FFr 638m ($116m) net compared with FFr 1bn in 1979, shows the impact of the recession in European car markets last year, when Renault was forced to reduce margins like most of its competitors.

By increasing its turnover, however, Renault claims to have pushed itself into fourth position in the ranks of Western vehicle manufacturers, behind General Motors, Ford and Fiat. Its consolidated sales rose FFr 11.5bn to FFr 80bn, of which FFr 38bn was achieved overseas.

Renault also continued with a heavy investment programme, described yesterday by M. Pierre Souleil, finance director, as firm evidence of its intention to continue to expand.

At the consolidated level, its expenditure rose by almost 50 per cent to FFr 6.6bn, of which FFr 4.3bn was financed from its own resources, an increase of 13.4 per cent on the previous year.

A great deal of these investments have gone into the development of new vehicles, and some into helping with its strategic growth overseas, particularly at American Motors and Volvo.

Renault's profits were achieved after a tax charge of FFr 957m, and dividend and interest payments to the state of FFr 191.7m.

One of the main features of Renault's performance last year was that it managed to increase its vehicle output when virtually every other leading manufacturer in Western Europe and America was forced to cut back.

Production rose for the first time to more than 2m, compared with 1.87m in 1979, an increase of 9.7 per cent. Of these, 54,000 units came from RVI, the commercial vehicle subsidiary, which increased its output by 18 per cent.

A great deal of these additional vehicles went into the French market, where Renault's share rose from 35 per cent to 40 per cent. But it also consolidated its base within the EEC, where it claims to have climbed into number one position with 14.4 per cent of the market.

During the current year the company is probably unlikely to maintain its 1980 performance, although it is hoping that the market will improve in Europe during the autumn or winter.

Output in the first three months dropped by 9.2 per cent and sales outside France fell by 14 per cent.

Fokker sees maintained profits

BY CHARLES BATCHELOR IN AMSTERDAM

FOKKER, the Dutch aircraft maker, expects to take orders for 57 F-27 and F-28 aircraft this year compared with 47 in 1980, although the upturn in demand will have a negligible impact on net profit, which this year will be broadly maintained at Fl 9.8m ($4m).

Profitability is slowly being restored to a reasonable level, the company said yesterday. Its financial position in 1980 was "satisfactory" with it being able to place sizeable deposits on the money market during the year and reduce net interest charges to Fl 5.4m from Fl 7.3m.

Fokker nearly quadrupled its operating profit to Fl 22.5m last year and net profits doubled to Fl 9.8m.

The company expects a decision from a Japanese industrial consortium comprising Fuji, Kawasaki and Mitsubishi in the late autumn over whether it will join in the development of the MDF 100, a 150-seat airliner Fokker plans to build together with McDonnell Douglas.

A final decision on whether to build the aircraft will be taken at the end of the year.

Fokker and McDonnell Douglas will retain equal shares in the MDF 100 project if a third part joins. The project will be still viable if no third partner is found, Fokker said.

The company expects to keep selling its F-28 jet at least until the end of the 1980s while the F-27 turbo prop, which is already 25 years old, will keep selling until the mid-1990s.

Fokker's future is therefore guaranteed even if the MDF 100 project does not go ahead, although this new aircraft would increase the company's credibility, the board said.

Fokker was critical of the BAE-146, a short haul feeder airliner launched last week by British Aerospace. Fokker may lose customers for its F-28 jet to BAE, which is said by Fokker to be offering the new aircraft at "unrealistically attractive" conditions.

Firestone in the black despite lower sales

By Ian Hargreaves in New York

FIRESTONE Tire and Rubber of the U.S., which has recently made big cuts in its worldwide operations, managed to operate its North American tyre business profitably in the second quarter, in spite of a 25 per cent drop in unit shipments.

The company yesterday reported $27m net profits for the quarter to April 30, compared with a loss of $52m in the same quarter last year. Sales were down from $1.2bn to $1.1bn.

For the half year, Firestone came in with net income of $103m, against a $66m loss last year. Sales were $2.2bn versus $2.4bn.

During the second quarter, Firestone continued to make progress in restructuring a weak balance sheet and in reducing costs.

Excess cash was used to repurchase $67m of long-term debt and the substantial discount available on these securities because of the slide in bond prices generally in the U.S. resulted in a $32m pre-tax gain.

But that gain, which came out at $12m after taxes, was more than offset by a $14m loss on foreign currency fluctuations.

The North American tyre business had pre-tax profits of $17m in the quarter, compared with a $3m loss last year.

International tyre operations made a profit of $12m down from $22m last year because of the large exchange rate loss.

Firestone's elimination of part of its debt has also brought significant benefits in reduced interest expense, which totalled $28m in the first half of this year, down from $58m in the same period of 1980. At the end of the second quarter, Firestone's total debt was $600m, down from $780m six months earlier.

Esmark and Purex to hold talks

By Our Financial Staff

PUREX INDUSTRIES, the household cleaning products group, has agreed to hold talks on a possible business combination with Esmark, the food, chemical and foundation garment concern which has acquired a 5.94 per cent stake in Purex. Under the agreement Esmark is not to buy more shares in Purex until September.

Esmark last year sold its oil and gas interests, registering an $383m net gain, and spun-off 60 per cent of its Swift fresh meat activities early this year.

Purex, which has a market capitalisation of around $250m, has specialty chemical and fire fighting equipment activities as well as its household products operations, and provides aviation services. Earnings growth has been steady but unspectacular and it has paid dividends since 1936. Its profits in first half of the year to June 30 totalled $12.07m, while at Esmark net profits in the first quarter of its year to the end of October were $11.7m.

Sharp rise in U.S. Shoe's earnings

By Our Financial Staff

UNITED STATES Shoe Corporation has reported a sharp upturn in net profits for its first quarter to May 2, with much of the increase attributable to its specialty apparel retailing activities.

Profits came out at $9.71m against the $5.71m of the corresponding period last year, while sales were up from $218.3m to $242.5m. Per-share profits were $1.31 against 78 cents.

U.S. Shoe said its specialty apparel retailing operations increased operating profits by 51 per cent and sales by 28 per cent. The footwear activities, which include manufacture, import and sales, showed an 18 per cent rise in operating profits on sales 3 per cent higher.

Higher dividend from Generali

By Our Financial Staff

ASSICURAZIONI Generali, Italy's largest insurance group, reports sharply higher profits for 1980 and is lifting its dividend by more than a quarter to L850 a share from L750.

The company, which ranks as number three in the European insurance league and vies with Fiat for top blue-chip status on the Milan bourse, has achieved net profits of L39bn ($34m), a gain of 24 per cent over 1979.

Earlier this year, Generali unveiled plans for a L35bn rights issue in convertible bonds.

BNP $200m floating rate note resembles CD

BY PETER MONTAGNON

BANQUE NATIONALE de Paris is launching a $200m 15-year floating rate note with a structure designed to appeal to investors who normally buy certificates of deposit (CDs).

The notes, which are priced at 99½ and bear interest at the six-month London inter bank rate for the first three years, rising to Libor plus a margin of ⅛ per cent thereafter, may be redeemed at stages through the life of the issue.

The first redemption date comes after three years, when the notes can be redeemed for the issue price at the option of the holder. Thereafter redemption is offered at biennial intervals at gradually escalating prices with redemption at par possible after 11 years.

This gives the issue something of the flavour of a revolving CD, or a succession of CDS which are regularly rolled over.

The price has been pitched to bring the yield more in line with those available in the CD market, and although this yield is lower than that normally available on floating rate notes, its hoped that the issue will thereby become more easy to trade.

Because Banque Nationale de Paris is perceived in the market as an international bank in its own right, the issue gives less indication of France's current international credit standing than would a bond by a major state entity such as Electricité de France or Crédit National.

Straight dollar Eurobonds yesterday showed gains of more than 1 point as the market reacted to lower money supply and inflation figures from the U.S. However, in what was still a professionals market, prices came back from their highs on light profit-taking towards the close.

The City of Winnipeg's issue was increased to $50m from $40m by lead managers Wood Gundy, while a new $30m floating rate note was also announced for Banco Latino Americano de Exportaciones of Panama. Led by Manufacturers Hanover, this five-year issue bears interest at a margin of ¼ per cent over six-month Libor.

Japan's hydraulic engineering concern, Tadano, is floating a $30m convertible 15-year issue through Daiwa Europe. It has an indicated coupon of 6¼ per cent and conversion premium of around 5 per cent.

In Germany, where two more new issues were postponed because of poor market conditions, international bond prices slipped by 1½ points, while Swiss franc foreign bonds were about ½ points lower because of upward pressure on short-term interest rates.

Table, Page 18

Costa Rica near IMF agreement

BY WILLIAM CHISLETT IN SAN JOSE AND PETER MONTAGNON IN LONDON

COSTA RICA hopes to be able to draw about $75m from its new International Monetary Fund credit by the middle of next month, paving the way for a resumption of borrowing on commercial markets, according to Sr. Jose Miguel Alfaro, the country's vice president.

Sr. Alfaro told journalists in London that besides a SDR 277m ($329m) Extended Finance Facility credit from the IMF, the country is also expecting to receive about SDR 15m ($18m) from the fund's Compensatory Finance Facility because of export shortfalls.

As already reported, the IMF's agreement wtih Costa Rica will allow the country net foreign borrowings of $350m this year, of which about $200m is expected to come from private financial markets.

Sr Alfaro said that Costa Rica should have no difficulty raising this amount despite its continuing shortage of foreign exchange. The central bank's foreign exchange reserves remain in a net negative position of about $100m, which is the amount by which its short-term foreign currency liabilities exceed its holdings of dollars.

He also confirmed that Costa Rica has sold about three-quarters of its holdings of gold bullion, but gave no precise figures. Sr Alfaro added that Costa Rica also expects to receive an official U.S. commodity credit to cover wheat purchases worth about $21.5m, and a further aid appropriation request of $25m is expected to come up before the U.S. Congress shortly.

In San Jose, Sr Raul Fernandez, the country's Director of Public Credit, said that the central bank may revive efforts to raise a $20m one-year credit at a margin of ⅞ per cent over London inter-bank rate. Syndication of this credit through Interunion Bank of Paris was put on ice earlier this year.

International banks have also agreed to roll over about $60m of short-term debt coming due in May and June, he added.

Meanwhile Costa Rica's central bank has proceeded with the issue of three-year negotiable Certificates of Deposits to replace short-term obligations totalling $282m which were due to domestic importers.

Jamaica puts hotels on market

BY ARTHUR SANDLES

EIGHT of Jamaica's best known hotels are being offered to international investors under the Jamaican Government's privatisation campaign. A team of the island's officials are in London seeing European investors after a similar visit to the U.S.

The Jamaicans realise that they are unlikely to find cash buyers so they are aiming for leasing deals. The minimum is a five-year lease at an annual rental of 8 per cent to 12 per cent of valuation.

The hotels are: The New Kingston (400 rooms, estimated value US$15.9m), the Inter-Continental Kingston (388, US$17.2m), the Inter-Continental Ocho Rios (360, US$18.5m), Mallards Beach (400, US$20.8m), Trelawny Beach Club (350, US$18.3m). Royal Caribbean (168, US$8.6m), Casa Montego (129, US$7.1m), and Negril Beach Village (280, US$16.4m).

The Government team, which claims to have more than 50 active inquiries from U.S. companies, is bullish about Jamaican tourism. A three-year plan has targets of improving tourist revenue from the present $200m to $375m and of improving hotel occupancy levels from 1980's 50 per cent to a year round 75 per cent.

There is considerable enthusiasm for European investment—about 20 per cent of Jamaica's visitors are from Europe, and they stay longer and spend more than Americans. The Government is keen to see negotiations started within a few weeks

Investor buys 6% stake in Tosco

By David Lascelles in New York

A COLORADO real estate developer has revealed in filings with the Securities and Exchange Commission that he recently bought a 6 per cent stake in Tosco, the large San Francisco-based refining company with interests in oil shale development in Colorado and Utah.

Mr. Kenneth Good said in the filing that while the purchase had been made for investment purposes, he might buy more and may even seek control of the company.

A 6 per cent stake in Tosco at the company's recent trading price would be worth approximately $30m. The company's total market capitalisation is more than $500m.

It has a 40 per cent stake in the Colony Shale Oil project in Colorado, with Exxon holding the other 60 per cent. Exxon is the operator of the project and a 43,000-barrel-a-day plant is scheduled to start up in late 1985.

Tosco said it filed suit in Los Angeles alleging that Mr. Good filed a "false and misleading and incomplete" statement to the SEC. It also said he had failed to disclose material information about his background and intentions. Mr. Good, according to Tosco, has been acquiring property in Garfield County, Colorado, site of the Colony project.

Statement on Rundle oil project expected

By Our Sydney Correspondent

EXXON'S partners in the stalled Rundle shale oil project in Australia have signalled the Sydney Stock Exchange that they plan to make a statement today about the future of the A$10bn (US$11.5bn) synthetic oil development.

It seems probable that Central Pacific Minerals and Southern Pacific Petroleum will announce that Esso Australia, Exxon's local subsidiary, will, after all, continue with a demonstration plant and a feasibility study on the Rundle development in Queensland.

Esso announced in April that it was re-examining its involvement in Rundle because of doubts about oil shale reserves, increased costs, and assorted technical problems

In the past year Esso Australia has spent more than A$30m on the project, and today's announcement is expected to state that the U.S. oil major will continue or even increase this level of spending for at least three years.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. For further details of these or other bonds see the complete list of Eurobond prices which will be published next on Thursday June 11. Closing prices on May 26

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Am. Air. 15½ 86 (WW)	55	100⅛	100⅝	+0⅛	+0⅞	15.02
Amoco 13¾ 88	75	94⅛	94⅝	+0⅛	+0⅛	14.58
CIBC 14½ 84	185	98⅛	98⅞	+0⅞	+0½	15.07
CNE 12¾ 91	100	88⅛	88⅝	+0⅞	+1⅛	15.07
Citicorp O/S Fin. 10 86	300	84⅛	84⅞	+2	+1⅞	14.45
Citicorp O/S Fin. 12 87	200	89⅝	90⅛	+2	+2	14.49
Con Illinois O/S 9¾ 85	150	82⅜	82⅞	+1½	+1⅛	14.83
Dupont Canada 13½ 91	65	94⅛	94⅞	+1½	+1⅛	14.53
EEC 11 95 (August)	70	77½	78	+2⅛	+1⅛	14.82
EIB 13⅝ 89	75	89⅛	89⅝	0	+0⅛	15.13
Eldorado 13⅛ 86	50	92⅞	93⅜	−0⅜	−0⅝	16.37
Elec. de France 10 88	125	79	79½	+1	+0⅜	14.92
Elec. de France 13 88	125	91½	92	+0½	+0⅜	15.00
Export Dv. Cpn. 9½ 88	150	80⅞	81⅜	+0½	0	16.45
Fed. Bk. D. 12⅛ 85 (N)	50	91⅞	92⅜	+0½	+0⅜	14.79
Fin. Exp. Credit 10⅛ 85	50	84⅛	84⅝	−0⅛	+0⅛	16.96
Finland, Rep. of 9½ 86	100	79⅛	79⅝	+0⅜	+0⅞	16.84
Ford Credit O/S 14⅝ 83	150	98	98½	+0⅝	+0⅞	15.38
Ford Cr. O/S Fin. 16 84	150	102⅛	102⅝	+0⅜	+0⅞	14.77
Gaz de France 13½ 86	80	95⅛	95⅝	+0⅞	+0⅜	14.84
GMAC O/S Fin. 12 87	100	87⅞	88⅜	+0⅜	+1	15.01
GMAC O/S Fin. 12⅞ 85	100	90⅞	91⅜	+0½	+0⅞	15.02
Gen. Mtrs. O/S 11⅛ 87	100	87⅞	88⅛	+2⅛	+1⅛	14.73
Genstar 14⅝ 91	50	98	98½	−0⅜	−0⅜	15.08
GTE Fin. 13⅞ 86 (WW)	50	93⅛	93⅝	−2⅛	−2½	15.80
Hudson's Bay 11½ 90	75	83⅞	83⅞	+1⅛	+1⅛	14.90
IBM Wld. Trade 12½ 88	200	96½	97	+1⅞	+1⅞	13.22
Newfoundland 13½ 90	60	91⅛	91⅝	+0⅞	+0⅜	15.29
Nova Scotia 10⅝ 90	50	80⅛	80⅝	+0⅛	+0⅞	14.78
OKB 10 85	50	85⅛	85⅝	−0⅛	0	14.96
Ontario Hydro 13½ 91	100	92⅛	92⅝	−0⅜	−0⅜	15.00
Quebec Hydro 11½ 92	100	80⅝	81⅛	+1⅛	+1⅛	15.13
Queb. Hy. 13 91 (WW)	100	88⅛	88⅞	−0⅛	+0½	15.28
Royal Bk. Canada 14 86	100	97⅛	97⅝	−0⅛	+0⅛	14.76
SNCF 12⅛ 85	50	91⅞	92⅛	−0⅛	−0⅛	15.15
SNCF 13 91	75	89⅝	90⅛	−1	−0⅞	15.01
Sth. California Ed. 14 87	50	96⅛	96⅞	−0⅛	+0⅜	14.87
Sven Handelsbk. 13⅞ 88	45	92⅜	92⅞	−0⅜	−0⅛	15.54
Sweden 12⅛ 85	150	90⅝	91⅛	+0⅞	+0⅞	15.32
Swed. Ex. Credit 12 83	50	92⅛	92⅞	−0⅛	+0⅛	15.90
Swed. Ex. Credit 13 88	75	90⅛	90⅝	−0⅞	−0⅜	15.98
Toronto-Dom. Bk. 14 84	50	97⅛	97⅝	−0⅛	+0⅛	15.09
Tribune O/S Fin. 14 86	50	95⅛	96⅛	+0⅝	+0⅜	15.22
World Bank 9⅝ 85	200	84⅛	84⅞	−0⅛	0	15.08
World Bank 10⅛ 87	300	82⅛	82⅝	+0⅛	+0⅞	14.85

Average price changes... On day +0⅝ on week +0⅝

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 10 91	100	97⅛	98	−0⅛	−0⅜	10.39
Austria, Rep. of 8⅛ 92	150	86	86⅝	−0⅞	−1	10.33
CECA 7⅞ 92	150	86	86⅝	−0⅞	−0⅞	9.83
CECA 10 91	120	98⅛	99⅛	−1	−1	10.15
CII-Honeywell 8⅛ 90	125	88⅞	89⅜	−1½	−1⅛	10.22
Council of Europe 10 91	100	97⅝	98½	−1⅛	−1⅛	10.37
EIB 8½ 90	200	87⅝	88⅛	−1⅛	−1⅛	10.56
EIB 10½ 91	200	99⅞	100⅜	−1⅛	−1	10.49
ESCOM 9⅛ 87	100	90⅞	91⅜	−1⅜	−1½	11.20
Finland, Rep. of 10 89	100	97	97⅜	−0⅛	−0⅛	10.50
Iberduero SA 9 90	100	90⅛	91⅛	−1⅛	−1⅛	10.67
Ind. Bk. Finland 8½ 90	50	88⅛	89⅛	−1	−0⅞	10.41
Int.-Am. Dv. Bk. 10 91	100	98⅝	99⅛	−0½	−0⅛	10.15
Japan Air Lines 8⅛ 87	100	89⅛	90	−1⅜	−1⅛	10.38
Japan Dev. Bank 7⅝ 87	100	86⅛	87⅛	−2½	−2⅛	10.61
Kobe, City of 8 90	100	86⅝	87⅛	−2⅛	−2	10.31
Midland Int. Fin. 8½ 90	150	88⅞	89½	−1⅜	−1⅛	10.35
Nurlobras 9⅝ 88	100	88	88⅝	−0⅜	−0½	12.22
OKB 8⅛ 92	150	85½	86⅛	−0⅜	−0⅜	10.45
Oslo, City of 8⅝ 90	80	92	92⅝	−2½	−1⅜	10.09
Venezuela, R. of 9⅞ 90	150	92⅞	93⅜	−0⅞	−0⅜	10.98
World Bank 8 90	700	85	85⅜	−1⅛	−1	10.55
World Bank 10 86	150	100⅛	101	−0⅜	−0⅛	9.83

Average price changes.. On day −1⅛ on week −1

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aeroport Paris 6½ 91	60	93⅞	94½	−0⅞	−0⅜	7.37
BFCE 6½ 91	100	†94	95	−1⅛	−1½	7.30
Bayer Int. Fin. 5⅛ 92	100	88⅛	88½	−0⅜	+0⅛	6.75
Bergen, City of 6⅝ 91	40	98	98⅞	−0⅛	0	7.02
Bhrmn.-Tetternde 7 90	40	98½	99	−0⅞	−1⅛	7.19
CECA 6⅜ 91	80	95	95⅛	−0⅛	+0⅛	7.46
Denmark 5⅝ 90	80	86	86⅛	−0½	−3⅞	7.95
Dome Petroleum 5⅝ 91	100	92⅛	92⅜	−0⅜	−0⅜	6.83
Elec. de France 5⅛ 90	100	87½	88	−1⅛	−1½	7.03
Eurofima 5⅛ 92	80	†98	99	0	+0⅛	5.53
F. G. H. Hypo. Bk. 6 90	50	†90	91	−0⅜	−0½	7.49
Finland, Rep. of 5⅝ 90	80	85⅜	86	−0½	−0½	7.82
Franc. Petroles 6½ 91	80	94	94½	−2⅛	−2⅜	7.34
Genstar 7 91	100	99⅛	99⅝	−0⅛	−0⅜	7.07
Int.-Amer. Dv. Bk. 7 91	100	97⅜	97⅞	−1⅛	−0⅜	7.32
Japan Dev. Bank 5⅝ 90	100	†92	92½	+1	+0⅛	6.89
Mt. Blanc Tunnel 5⅝ 90	80	85½	85⅜	+0⅜	+0½	7.55
Nowag 5⅞ 90	80	90⅛	90½	−0⅞	−0⅜	7.22
OKB 7 93	100	98⅛	98½	−0⅜	0	7.18
Oslo, City of 5⅞ 90	80	87	87⅛	−4⅛	−4⅛	7.86
Philips Lamps 5⅝ 92	100	86⅝	87	−0⅜	−1	6.98
Swed. Ex. Cred. 7⅛ 91	75	97½	97⅜	−0⅛	−0⅛	7.60
Trade Dev. Fin. 6⅝ 90	50	92⅛	92½	+1	+1⅛	7.27
Voest-Alpine 5⅞ 90	80	87	87⅛	+0⅛	+0⅜	7.73
World Bank 6 91	100	†91	91½	0	−1⅛	7.28
World Bank 7 90	100	100⅛	100⅝	0	+0⅛	6.92

Average price changes... On day −0⅜ on week −0⅝

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bk. 8⅛ 91	15	97⅛	98⅞	−0½	+0⅛	8.49
Australia 6½ 88	20	86⅛	86⅝	−1⅛	−1⅛	8.32
EIB 7⅝ 89	12	92	93	−1	−0⅜	9.07
Finland 5.6 83	10	90½	91⅛	−1⅞	−1⅛	9.86
Finland 6 8 88	10	86⅝	87⅛	−0½	−0⅛	8.38
Finland, Rep. of 8⅛ 87	15	98	99	−0⅛	−0⅛	8.70

Average price changes. On day −0⅞ on week −0⅜

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 10⅝ 86 C$	60	†85½	86½	+0⅛	+0⅛	14.86
CIBC 13½ 85 C$	50	†95	96	+2⅛	+2	15.08
CIBC 11½ 85 C$	60	†88	89	+1⅛	+0⅛	15.43
Federal Dev. 11⅝ 90 C$	80	†81⅛	82⅛	+0⅜	+0⅜	15.32
Fst. Can. Inv. 10 84 C$	50	†85⅛	86½	+1½	+1½	16.31
R. Bk. Canada 10 86 C$	40	†89⅛	90⅛	0	+0⅛	12.32
Tordom Cpn. 13⅛ 85 C$	30	†95⅛	96⅛	+1½	+1½	15.03

OTHER STRAIGHTS (cont.)	Issued	Bid	Offer	Change on day	Change on week	Yield
M. Bk. Dnmk. 9 91 EUA	25	90	91	−0⅛	−0⅛	10.52
SOFTE 8⅛ 89 EUA	40	87½	88½	−1	−1	10.56
U. Bk. Nwy. 9½ 90 EUA	18	96	97	−0⅞	−0⅞	10.11
Algemene Bk. 10⅛ 85 Fl	60	95⅛	95⅞	−0⅞	−1⅛	11.46
Bk. Mees & H. 10 85 Fl	75	95⅛	95⅝	−0⅜	−0⅜	11.43
Heineken NV 10 87 Fl	100	93⅞	94⅛	−0⅜	−1	11.40
Nat. Nedrlnd. 10 88 Fl	60	92⅞	93⅛	−0½	−0⅛	11.56
Ned. Midd. Bk. 10 85 Fl	50	94⅝	95⅛	−1	−1	11.50
Pierson 10⅛ 88 Fl	50	95½	96	−0⅜	−0⅞	11.43
Air France 14½ 85 FFr	200	92⅛	93⅛	−2½	−2⅜	16.71
Bk. America 14½ 85 FFr	250	92⅛	93½	−1⅛	−1⅛	16.87
Charb'nages 13⅞ 85 FFr	400	90⅞	91⅞	−2	−2	16.64
EIB 14⅛ 88 FFr	300	90⅞	91⅜	−1⅛	−1⅛	16.32
La Redoute 14⅛ 85 FFr	125	90⅞	91⅜	−2⅛	−2⅛	17.24
OKB 14 86 FFr	400	91⅛	92⅛	−1⅛	−1⅛	16.59
Solvay et C. 14⅛ 86 FFr	200	99⅛	100⅛	−0⅞	−0⅛	14.81
Swed. Ex. C. 14⅝ 86 FFr	250	93	94	−0½	−0⅛	16.64
U. Mex. Sts. 14 85 FFr	150	92⅛	93⅛	−0⅛	−0⅛	16.56
Acona 14 85 £	20	93⅞	94⅞	−0⅜	−0⅜	15.75
Beneficial 14⅛ 90 £	20	89⅞	90⅛	−0⅛	−0⅛	16.27
BNP 13½ 91 £	15	92	92⅛	−0⅜	−0⅛	15.00
CECA 13⅜ 88 £	20	93⅛	94⅛	−0⅛	−0⅛	14.90
Citicorp O/S 13½ 90 £	50	93½	94⅛	−0⅛	−0⅛	14.76
Fin. Ex. Cred. 13⅛ 88 £	15	95	95⅛	−0⅛	−0⅛	15.13
Gen. Elec. Co. 12⅛ 89 £	50	90⅛	90⅞	−1⅛	−1⅛	14.59
Hiram Walker 14⅛ 86 £	25	96⅛	98⅛	−0½	−0⅛	15.44
Privatbanken 14½ 88 £	12	94⅛	95⅛	−0½	−0½	15.78
Rothschild 14⅛ 90 £	12	95⅛	96	−1⅛	−0⅞	15.12
Royal Trustco 14 86 £	12	95⅞	96⅛	−1	−1	15.11
Swed. Ex. Cr. 13⅝ 86 £	20	95⅛	96⅛	−0⅞	−1	15.01
Banobras 8⅛ 90 KD	7	†90	90½	0	0	9.95
CCCE 8½ 91 KD	10	†82⅛	83⅛	0	0	11.04
Sonatrach 8½ 90 KD	12	†93	93½	0	0	9.86
Akzo 9⅝ 87 LuxFr	500	85⅛	86⅛	+0⅛	+0⅛	12.49
Euratom 9⅛ 88 LuxFr	500	85½	86½	−3½	−3	13.00
Eurofima 10½ 87 LuxFr	500	92⅛	93⅛	0	+0⅛	12.13
EIB 9⅛ 88 LuxFr	600	90½	91½	+0⅛	+0⅛	11.74
Volvo 9⅛ 87 LuxFr	500	86⅛	87⅛	+0⅛	+0⅛	12.71

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish Bank 5¼ 87	0¼	99⅛	99⅝	2/7	16⅛	16.73
Bank of Montreal 5¼ 90	0¼	99½	100	18/6	19½	19.55
Bank of Tokyo 5¼ 89	‡0¼	98⅛	98⅝	25/7	16⅞	16.75
BBL Int. 5 86	0¼	99½	100	20/5	16½	16.54
BNP 6⅛ 88	‡0¼	98⅞	99⅜	29/7	16.44	16.58
CNT 5¼ 86	§0¼	99⅛	99⅝	16/10	16.81	16.90
Christiania Bk. 5½ 91	‡0¼	98⅛	98⅝	5/8	17.31	17.58
Citicorp O/S F. 84	‡0	98⅛	99⅛	30/5	16⅞	16.98
C. Itoh 5¼ 87	0¼	98½	99	18/9	15.44	15.63
Co-operative Bk. 6 86	0¼	99⅛	99⅝	15/11	19.56	19.66
Den Norske Credit 6 90	‡0¼	98⅛	93⅞	5/8	17.31	17.49
Genfinance 5¼ 87	0¼	98⅛	99⅜	30/10	16.94	17.13
Giro und Bank 5¼ 91	‡0¼	98⅛	98⅝	23/8	14.06	14.28
GZB 5½ 89	‡0¼	98½	99	1/8	17.31	17.53
Ind. Bank Japan 5¼ 87	0¼	99	99½	15/10	17.06	17.19
Ind. Bank Japan 5¼ 88	0¼	98½	99	9/10	16.44	16.65
Lloyds Eurofin 8 90 £	0¼	96⅛	97⅛	3/7	14½	14.96
Lloyds Eurofin 5¼ 92	0¼	99	99⅜	4/8	17⅛	17.38
LTCB Japan 5¼ 86	0¼	99⅜	100⅛	13/6	20.19	20.18
Man. Hanov. O/S 5¼ 94	‡0¼	99	99½	30/5	17	17.13
Merrill Lynch O/S 87	0¼	100⅛	100⅝	7/8	20.44	20.34
Midland Int. Fin. 5¼ 92	0¼	98⅞	98⅝	5/6	17.19	17.34
Midland Int. Fin. 5 91	0¼	97⅞	98⅜	30/10	16.81	17.13
Nacional Fin. 6¼ 86	0¼	98	98½	25/7	17⅞	17.88
Nacional Fin. 5½ 88	0¼	96⅞	97⅜	25/9	14⅞	15.35
Nat. Bk. Canada 5¼ 88	0¼	97⅛	97⅝	24/9	14½	14.87
Nat. West. 5¼ 94	§0¼	97½	98	14/10	16.19	16.56
Nat. West. 5¼ 92	§0¼	97⅝	98⅛	23/10	16.81	17.16
Pemex 6 91	0½	97	97½	8/10	15.31	15.75
Sparebanken 6 87	0¼	99⅛	99⅝	19/6	19⅞	20.08
Standard Chart. 5¼ 90	0¼	98⅛	98⅞	3/9	17.06	17.30
Svenska Hndlsbk. 5 87	0¼	99⅛	99⅝	15/7	17.81	17.88

Average price changes... On day +0⅛ on week 0

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Bow Valley Inv. 8 95	4/81	23.12	97	98⅛	−0⅛	19.61
Canon 6⅞ 95	1/81	829	164½	166	−7⅛	−1.13
Credit Suisse 4⅛ 93	10/79	1236	80⅞	82	−8⅛	−3.39
Digicon Fin. 8½ 95	7/81	29.5	112⅛	113½	−4⅞	−1.72
Fujitsu 5½ 96	7/81	732	104	105	—	11.66
Hanson O/S Fin. 9½ 96	8/81	2.74	92	92⅞	−0⅜	5.14
Ina Overseas 8⅛ 2000	4/81	42	106⅛	107½	+4⅛	0.02
Inchcape 8 95	2/81	4.55	82	83⅛	−6½	−2.50
Kotobukiya Co. 7 96	4/81	619	†96	97	0	−4.52
Manon Int. Fin. 9 95	12/80	15.5	85⅛	86⅛	+0⅛	16.08
Matsushita El. 7½ 95	11/80	590	101½	102½	−1	2.09
NKK 6½ 96	7/81	188	104⅛	105⅛	—	9.07
Ricoh 6½ 95	8/80	604	123⅞	124⅞	−2⅛	1.49
Sumitomo M. Ind. 7 95	2/81	181	147½	148½	+10½	−1.56
Swiss Bk. Cpn. 8⅛ 90	9/80	200	74	76	−0½	29.78
Taylor Woodrow 8⅛ 90	1/81	4.94	103	104½	−3⅞	−0.40
Tokyu Land Cpn. 7⅛ 96	4/81	325	99⅛	100⅛	+1	6.82
Transco Int. 8⅛ 90	2/81	68	85	86⅛	+1⅛	21.30
Tricorp 8½ 95	12/80	31.25	85⅛	86⅛	+5	9.74
Union Bk. Switz. 5 89	2/80	73.79	71⅛	73⅛	−0⅛	2.83
Fujitsu 5 84 DM	7/79	431.5	184⅛	185⅛	−1	−2.98
Sharp Cpn. 6½ 88 DM	9/80	595	180⅛	181⅛	−0½	1.30
Uny Co. 6½ 85 DM	11/79	879.3	108	109	+2	−0.57

* No information available—previous day's price.
† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Logabax unions seek intervention on layoffs

By Terry Dodsworth in Paris

FRANCE'S new Industry Minister, M. Pierre Joxe, is facing a crisis at Logabax, the small computer system manufacturer, which was rescued with the help of FFr 240m ($43.6m) of state-backed aid last December.

Unions in the company have asked M. Joxe to intervene *following the announcement of* plans for a drastic cut in the company's labour force and sales network.

According to the management, Logabax needs to shed about 770 workers out of its 1,500 *labour force*, and to close its overseas interests in West Germany, Italy, Britain, Spain, and Belgium.

It also needs another FFr 200m to get back into balance by 1982, says M. *Jacques Dumas, the new chairman*, who has drawn up the rescue plan.

The *Logabax* affair is important because it could give the first indications of how M. Joxe, noted for his Left-wing views, intends to run the Industry Ministry.

It may also give some clues to the new *Socialist administration's* policies in the computer and computer-related industries, where the previous Government was aiming for a big expansion.

Until 1979 Logabax was one *of the main hopes for the* development of this sector in France. But it then ran into problems, mainly caused by expanding too quickly. It suffered a loss of FFr 93m in 1979 and an estimated *FFr 150m last year*.

Under the rescue plan agreed with the Government last year, Logabax was re-floated with the aid of funds injected by Electrobel, its Belgian-based majority shareholder, a group of banks *and the State*.

At the beginning of next year, Intertechnique, a French company in the same field backed by the Dassault aerospace concern, is due to make a decision on whether or not it wants to take over *Logabax*.

Strong exports boost Minolta

BY OUR TOKYO STAFF

MINOLTA, the office equipment and camera group, reports a steep rise in earnings for the year ended March, 1981, and expects profits growth to continue in the current 12 months.

Helped by strong foreign sales, turnover in office equipment (mostly copiers) rose by 60 per cent. Demand for *cameras was also high*, and the result has been net profits 79 per cent ahead at Y4.51bn ($14m).

This year Minolta sees further progress, expecting sales and earnings to rise by 20 per cent and 12 per cent respectively. In the meantime, the dividend for 1980-81 is going up to Y8 a share from Y7.50.

Exports last year rose by 40 per cent to account for 81 per cent of total turnover, and direct foreign sales jumped by 77 per cent. Office equipment now represents 45 per cent of turnover (against 25 per cent *just four years ago*) and 60 per cent of earnings.

A newly established sales subsidiary in the UK supported overseas sales. Volume production at the new copier manufacturing plant from June onwards contributed to earning gains, as did reduced administration costs and a lower financial burden.

In the current year Minolta expects a further boost to sales of office equipment, particularly original equipment. The supply *of dry copiers to IBM, which* started from March this year, is expected to contribute fully to sales and earnings.

Capital investment of Y12bn is planned (Y6.8bn in the previous year) including Y3.8bn of capacity expansion in copiers to double production to 20,000 units monthly.

For 1981-82 operating profits *are projected at Y10bn, up 8.5* per cent; net profits at Y5bn, up 11.9 per cent; and sales at Y138bn, up 19.2 per cent.

Quadrupled profits for Nippon Oil

BY RICHARD C. HANSON IN TOKYO

NIPPON OIL, which has the largest *market* share in Japan among petroleum companies, registered record sales and profits in the year ended March 31 despite a drop in the volume of sales to the lowest level in five years.

Net profit soared by *309.2* per cent from Y11.16bn to a record Y45.7bn ($206m), helped by exchange gains and by the price of oil products jumping in the year as a result of OPEC oil price increases. Sales value was up *26.3 per cent to a record* Y3.428bn ($15.4bn).

However, a combination of slow economic growth in Japan over the year, and largely successful efforts to economise on the use of oil by industry, held the volume of sales to only 51.8m kilolitres, a drop of 6.5 per cent from 1979-80.

Nippon Oil is predicting that volume sales in the current year will continue to shrink, but this time by a more modest 1 per cent below 1980-81.

● Fujitec, the Japanese manufacturer of lifts and escalators, is raising around $15m through the issue of 5m shares, writes John Makinson.

The shares will be priced at a discount to the closing price in Tokyo on, or immediately before, June 2. Fujitec shares closed at Y730 ($3.29) on the Tokyo market yesterday.

The shares are being issued in the form of European Depositary Receipts and will be listed in Luxembourg.

Increase at BSN Gervais Danone

By Our Paris Staff

BSN-GERVAIS DANONE, the fast-expanding French food processing *group, increased net* consolidated profits by 34 per cent last year to FFr 331m ($59m) against FFr 247m in 1979.

The results follow a year of considerable change for the group in which it disposed of its Flachglas-Dahlbusch flat glass subsidiary in West Germany. The profits of FFr 234m raised by the sale have not been included in the figures.

Consolidated sales went up to FFr 18.2bn compared with FFr 16.4bn *and cash flow increased slightly to FFr 1.3bn* against FFr 1.1bn in 1979. Investments dropped to FFr 1.2bn compared with *FFr 1.5bn in the* previous year.

With its withdrawal from the flat-glass manufacturing industry, which now accounts for only about 6 per cent of turnover, BSN is pushing further into the food and drinks business. Overseas, it has recently established enterprises in Japan, Mexico and the U.S. The *new activities are progressing* well enough for the company to be "reasonably optimistic" about the future, said M. Antoine Riboud, chairman.

In the first three months of this year, consolidated sales have risen by a little more than 10 per cent.

Turnover in the drinks division rose by 11 per cent in the first quarter, while sales of fresh food products rose by 20 per cent and dry foods by 18 per cent.

Bekaert sees difficult year

Bekaert, the Belgian maker of wire ropes, sees a difficult year ahead following last year's major setback when earnings *tumbled to BFr 189m ($4.97m)* from BFr 452m, writes our financial staff. Trading in the opening four months of 1981 has improved modestly but remains far from satisfactory. The company says it plans a productivity drive.

Lufthansa forced by major setback to pass dividend

BY ROGER BOYES IN BONN

LUFTHANSA, squeezed by soaring fuel costs and flagging demand, saw net profits drop dramatically last year, from *DM 67.5m to DM 5.5m ($2.4m).*

In what it describes as the "worst year in world aviation since 1945," the West German airline decided to scrap its dividend on Ordinary shares and reduce its Preference dividend from 8 to 5 per cent.

Gross revenue from flight operations amounted to DM 5.37bn. But expenditure rose by almost DM 1bn to DM 5.48bn. Flight operations thus resulted in a loss of DM 114.9m compared with 1979's profit of *DM 24.8m.*

Dr. Herbert Culmann, the chief executive, said that the overall corporate profit was DM 6.7m (against DM 73.2m), from which special depreciation of DM 1.1m was deducted. Non-operating revenue—boosted by lower tax payments—amounted to DM 33.1m.

However, in comparison with other *airlines, Lufthansa* was still doing relatively well, he stressed. Total losses of members of the International Air Transport Association amounted to more than DM 6bn last year, and Lufthansa, Swissair, KLM and AUA were still making profits among the European carriers.

There are four main reasons *for Lufthansa's* malaise:

● Flight operation costs increased by DM 924m, of which fuel alone accounted for DM 491m. Fuel expenditure increased 61 per cent although the amount of fuel used was up *by only 3.1 per cent*.

● Because of the recession, the number of passengers increased by only 1.5 per cent and freight traffic also stagnated.

● It was impossible to pass on to passengers fully the fuel costs. *Flight operations revenue* increased, but this was mainly because of the fuel surcharges which in turn failed to match the costs.

● The weakness of the D-mark against the dollar aggravated the existing problems and contributed to the high fuel expenditure.

Clearly 1981 will also be another difficult year though the company is hoping that it does not end up in the red. It bases these hopes largely on the re-equipment of its fleet, releasing for sale 22 older aircraft.

Lufthansa has also launched a number of cost-cutting measures, some of which will take effect this year.

Mannesmann earnings advance

BY OUR BONN STAFF

MANNESMANN, the diversified West German steel and pipes group, managed to lift net profits by 17 per cent last year and has recorded a satisfactory first quarter to continue to buck the *depressed earnings trend in* the country's engineering industry.

Dr. Egon Overbeck, Mannesmann chief executive, said net profits had risen to DM 182m ($78.5m) compared to DM 155m in *1979 with sales increasing* 5 per cent to DM 13.1bn ($5.7bn). It must be remembered, however, that 1979 profits were very depressed, having dropped from DM 256m in 1978, largely because of poor results from Brazil and in plant construction.

In 1980 both these divisions *recovered and the effect has* clearly been reflected in earnings.

Despite Brazil's high inflation and its other economic troubles, Mannesmann's Brazilian subsidiaries—embracing steel and pipe production, steel technology and engineering—pushed up sales by 5 per cent and the trend is continuing this year.

Other successful divisions—in sales terms at least—included Demag, embracing construction machinery, cranes, foundry technology, and Rexroth (hydraulics, data processing).

The most vulnerable part of *the group continues to be its* steel and pipes divisions. After making a loss of DM 47m in 1979, Mannesmann has seen pipe losses double. At the same time, the steel producing division—turning out steel largely *for Mannesmann pipes—has not* been operating at peak efficiency. As a result Mannesmann has decided to merge both divisions.

The merger should be completed in the summer, but it *remains hard to see how the* division can speedily return to profit. Thus Mannesmann has been forced to introduce a two-shift rather than three-shift system in pipes until business picks up.

Domestic demand is weak. But orders for Soviet pipes are helping to keep production at a reasonable level. Since 1970, Mannesmann has delivered some 7m tonnes to the Soviet Union.

Soviet orders, however, are *more often than not being* placed at a price just below the cost of production. Although no final agreement has been reached, it looks as if the current multi-billion D-Mark gas pipeline deal under negotiation *with Moscow will also involve* below-cost pricing.

Turnover of the steel and *pipes division amounted to just* under half of total sales at DM 6.4bn last year. Trade with Eastern Europe accounted for DM 1.03bn worth of export orders in 1980.

Yet Mannesmann is genuinely trying to make its steel and pipes division more efficient. Some 2,500 jobs will be phased out over the next two or three years. It is also diversifying, largely through acquisition, the latest being a 50 per cent share in Kienzle, the data processing group.

West LB learns the error of its ways

By Stewart Fleming in Frankfurt

MOST leading German banks finally woke up last year to the fact that the profits a bank earns on its assets are more important nowadays than the sheer size of its corporate empire. Judging from the accounts of Westdeutsche Landesbank Girozentrale, it was one of the last to see the *light, and by the time it had* realised the error of its ways, the profits had all but disappeared.

Last year such competitors as Dresdner Bank and Commerzbank were cutting back the volume of assets in the balance sheets of their parent companies, in the face of deteriorating profitability and the worst banking climate in Germany's post-war history. Yet West LB just kept on growing, continuing the phenomenal expansion it had maintained through the previous decade. Now however, *having* passed its dividend for 1980 in order to strengthen its capital resources, and with the prospect that there will be no dividend this year either, the mood in the DM 114bn ($50bn) institution has changed.

Dr. Johannes Völling, the chief executive, who along with his deposed predecessor the colourful and controversial Dr. Ludwig Poullain,

Westdeutsche Landesbank is one third owned by the state of North-Rhine-Westphalia, one third by the Savings Banks Associations of Rhineland and Westphalia, and one third by two local government associations, of Rhineland and Westphalia-Lippe. Total assets rose from DM 34bn in 1969 to DM 114bn in 1980.

launched West LB during the 1970s into competition with the giants of the banking world, remarks ruefully: "We have learnt our bitter lesson. Growth is no longer the top priority, profitability is our goal." But he adds: "This is not as easy for us as for our commercial bank competitors."

Like other German Landesbanks, West LB found once it decided to compete with its commercial rivals as a universal bank, that it faced a whole range of structural disadvantages which forced it to expand aggressively by buying market share.

Thus, unlike Deutsche Bank or Bayerische Vereinsbank for example, West LB has no network of branches in Germany through which to collect cheap current account and savings deposits. Nor has it the private customer base to which it can make consumer loans. It has also had to struggle to build up its industrial lending base, lacking as it does a tradition of long standing corporate *relationships*. The corporate customers it does have, moreover, tend to be the larger companies, and their demands for finance have not been strong.

West LB's strongest demand *for credit* has come from the public sector, the Federal and local governments. It counts local governments in North Rhine-Westphalia among its shareholders and as house bank is naturally *expected* to take up a share of their borrowing. Since such lending does not require the bank, under German banking law, to support the loans with shareholders' equity funds, West LB found this *business attractive* — until it realised that the rate of interest it was getting on a large portion of its lending was lower than the cost of the money it was buying itself in the wholesale money markets *to finance* the securities it purchased. Part of the DM 10.8bn of mismatching between borrowing and lending rates and conditions resulted from this source.

But it repeated the mistake elsewhere, too, and Dr. Völling was forced to concede that the bank had based its expansion in part on wrong judgments about interest rates. In New York, for example, West LB in 1979 made longer-term fixed interest loans in a period when the prime rate was around the 12 per cent mark through much of the year, before rising to 15½ per cent in the last quarter. Today refinancing costs through three-month bank certificates of deposit are again over 18 per cent.

West LB *may* find it hard to shake off the doubts. A period of consolidation and greater business selectivity lies ahead —*Dr. Völling* talks about 6 per cent asset growth in 1981. It seems likely, too, that the shareholders and guarantors, while not laying down guidelines for the development of the business, will be watching West LB's affairs much more closely. Some of them are facing their own financial constraints and have been far from happy about putting in the new DM 200m of capital at the end of a year like 1980.

Ampol Petroleum ahead despite lower petrol sales

BY OUR SYDNEY CORRESPONDENT

AMPOL PETROLEUM lifted earnings by 20.4 per cent in the half year to March despite a downturn in earnings from its traditional profit-base, petrol marketing.

Group earnings rose from slightly under A$14m to A$16.9m (U.S.$19.3m) on a 12.2 per cent sales rise from A$329.8m to nearly A$370m (U.S.$422m). The interim statement is the first since Pioneer Concrete Services acquired a majority stake in the company.

Mr. Ted Harris, Ampol's managing director, said profits of the petrol marketing division were slightly lower in the half, but refining operations at Lytton in Queensland, had increased profits following substantial capital expenditure in recent years. The company also received a larger contribution from its share in Universal Telecasters, which operates Brisbane's Channel O. The company's share of results from the Australian lubricating oil refinery at Kurnell, a southern Sydney suburb were higher as were contributions from property and leisure operations.

The period also included the first contribution from the company's stake in Queensland Mines and Kathleen Investments following the beginning of uranium sales from the Nabarlek mine.

Losses at Hong Kong unit hit Nissho Iwai

BY CHARLES SMITH IN TOKYO

NET PROFIT at Nissho Iwai, the major Japanese trading company, plunged 96.4 per cent to Y158m ($708,000) in the year to March 31 as a result of massive foreign exchange losses sustained in Hong Kong.

Nissho Iwai announced earlier this year that it was liquidating its Hong Kong subsidiary and transferring its losses to the parent company after the subsidiary *had incurred losses of* Y16.2bn in unsuccessful foreign exchange speculation on the local market.

The Hong Kong company's liquidation costs would have produced an overall net loss for Nissho Iwai had not the company sold land and securities to partly cover itself. The total *cost of the liquidation is put at* Y16.69bn.

Nissho Iwai's sales, at Y6.585bn ($29.6bn) were 14.1 per cent up, while operating profits showed a 32.3 per cent increase to Y13.25bn.

The higher operating profit reflects increases in interest and dividend income. The write-off of the Hong Kong company's losses reflects the sharp contrast between healthy operating profits and the small net profit figure.

Despite the drastic impact of the Hong Kong losses, Nissho Iwai is maintaining a dividend of Y3 per share.

Weak first quarter for Volvo

BY WILLIAM DULLFORCE, NORDIC EDITOR, IN STOCKHOLM

VOLVO, the Swedish car and truck group, yesterday reported a first quarter pre-tax profit of *SKr 280m ($57.1m) on consolidated* sales of SKr 5.76bn. Earnings were 27 per cent behind those achieved in the first three months of last year but 19 per cent ahead of the last quarter of 1980.

Turnover excludes sales by Volvo Car BV, the Dutch subsidiary in which Volvo last week *relinquished its majority holding* to the Dutch state. After adjusting for this, group sales show a gain of 1 per cent over the first quarter of 1980.

Profit margin (earnings as a percentage of sales) was 4.9 per cent compared with 3 per cent for the previous quarter and 6.5 per cent in the first quarter *of 1980. Earnings per share are* reported as SKr 6.60, against SKr 9.10 for the corresponding period last year.

Income from sales of both cars (SKr 3.1bn) and trucks (SKr 1.5bn) was unchanged. *About 70,000 cars, including the* smaller models made in the Netherlands, were delivered—the same number as in the first quarter of 1980.

Truck deliveries fell, but Volvo says that it has increased *its share of a declining West* European market. A stronger inflow of orders from countries outside Europe during the quarter left the truck division with a larger order book than a year earlier.

Volvo Trucks is negotiating the purchase of the major part of White Motor Corporation of the U.S.

Sales of bus chassis advanced by 67 per cent to SKr 190m. Marine and industrial engines *sales rose 6 per cent to* SKr 284m but turnover at Volvo BM, the construction equipment company, fumbled by 4 per cent to SKr 484m.

Capital spending amounted to SKr 218m during the period, *ahead by SKr 28m. Group liquid* assets at end-March totalled SKr 3.94bn, or SKr 349m more than at the end of 1980.

Old Mutual offshoot in bid for AA Mutual

By Jim Jones in Johannesburg

MUTUAL AND FEDERAL, the short-term insurance arm of Old Mutual, South Africa's largest insurance group, is engaged in preliminary discussions aimed at acquiring the *major part of the assets of* AA Mutual, the short- and long-term insurance company.

No price has yet been put on the deal, but since taking over the assets of New Zealand Insurance South Africa earlier *this year, AA Mutual's asset* base has risen to about R110m ($130m). Management says the short-term business of AA Mutual, with assets of about R70m, is to go to Mutual and Federal. The long-term part of the business, with assets of about R38m, is to be acquired by the lef assurer, Ned-Equity.

The arrangements would result in an enlargement of Ned-Equity's asset base by about 35 per cent of R140m. Mutual and Federal's asset base, which was expanded earlier this year by the acquisition of British Engine Insurance South Africa, *for R4m from Royal Insurance* of the UK, is expected to increase by about 40 per cent to approximately R245m.

SEB and Handelsbanken make good start to year

BY WESTERLY CHRISTNER IN STOCKHOLM

SWEDEN'S TWO leading commercial banks, Skandinaviska Enskilda Banken and Svenska Handelsbanken, report increases in operating earnings for the first four months of this year.

SEB group managed a 46 per cent increase in operating earnings to SKr 355m ($72.4m) in the four months, while the bank *itself showed a 49 per cent jump* in profits to SKr 287m. However, the bank's earnings fell back by SKr 42m against the *final four months of 1980* as a result of a SKr 45m reduction in net interest income.

Handelsbanken group experienced a 31.6 per cent lift in operating earnings to SKr 334m, while the bank's result rose by *36.7 per cent to SKr 265m.* Against the past four months of 1980 the bank's earnings fell by 15 per cent.

Bank income rose by 17.2 per cent to SKr 667m, including a rise in net interest earnings of 14.9 per cent or SKr 467m. Total costs rose 7.2 per cent to SKr 402m.

For SEB, bank income rose 19 per cent to SKr 759m. Net interest earnings grew 14 per *cent to SKr 449m, while costs* rose by SKr 23m to SKr 472m.

Handelsbanken notes that deposits in kronor rose by more than 20 per cent, while borrowings grew by only 7 per cent.

SEB says that the central bank's increase *in discount rate* pushed down the bank's placement margins to 1.80 from 1.86 per cent. To compensate, *all commercial banks responded* by raising deposit interest rates by 0.5 per cent from February 9.

For the whole of this year, SEB expects both group and bank operating earnings to exceed 1980's, provided further *monetary belt-tightening* does not occur.

Handelsbanken announces a co-operation agreement with China International Trust and Investment Corporation for developing and financing investment projects for Swedish and Chinese industry, including personnel training.

Bleak forecast by OOCH

BY ADRIAN BOVEN IN HONG KONG

THE OUTLOOK for the tanker *and container vessel markets* is bleak, although prospects for bulk carriers remain good, according to Mr C. H. Tung, chairman of Orient Overseas Container Holdings.

He said in the annual report *that excessive building of* container ships and tankers, recession in the major markets of the vessels and changes in the methods of transporting crude oil were the reasons for the gloomy forecast.

Mr Tung also warned that the excessive number of bulk carriers ordered for delivery between 1980 *and* 1982 *may* offset the buoyancy the market now enjoys from increased demand for coal and grain haulage.

OOCH earlier reported after-tax profits for 1980 of HK$150.9m, down 12 per cent from HK$169.04m in 1979, chiefly because of high interest rates.

BIL commissions

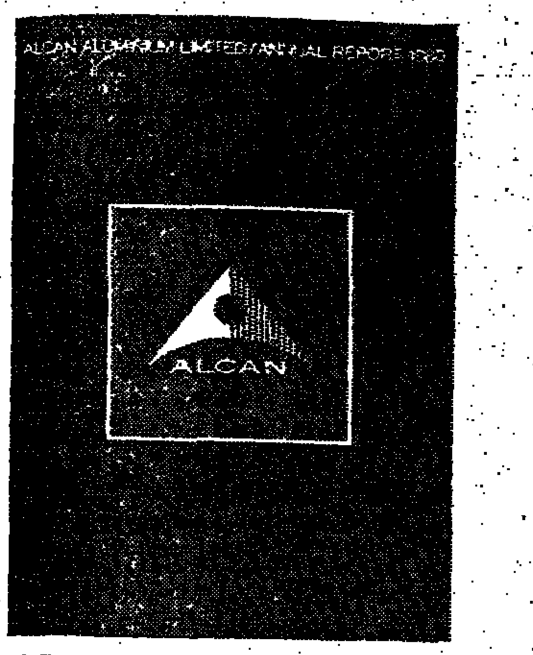
In an article on portfolio *management* in Luxembourg published in the Financial Times on May 21, the commissions charged by Banque Internationale à Luxembourg (BIL) were given incorrectly. They should have read 0.3 per cent *on amounts* up to LuxFr 5m, falling to 0.05 per cent on amounts over LuxFr 20m.

These twelve Annual Reports represent the first page of a 3-part series, designed to keep you informed on major North American companies.

Parts 2 and 3 will appear Thursday and Friday.

North American Companies

Investors Update 1



Alcan Aluminium Limited

This Canadian-based multinational company is the largest international enterprise in the aluminium industry, with operations in more that 30 countries, including the United Kingdom, Germany, France and other EEC countries. Aluminium smelter expansion projects are underway in Canada, Australia and Brazil with additional sizeable outlays to be made on new and expanded facilities in Ireland, Europe and elsewhere. Worldwide consolidated sales and revenues in 1980 were (U.S.) $5,215 million and net income was a record $542 million.

AMP Incorporated

Over 15% compound annual growth rate in sales, earnings & dividends for 25 years. 1980 sales up 14%, earnings up 9%.

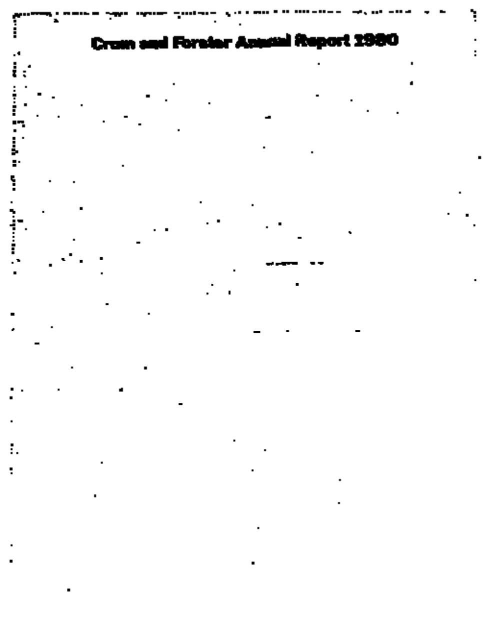
	Sales (Mil)	EPS	Div.*
1980	1,155	3.65	1.00
1970	226	.67	.19

*Increased 20% to an indicated annual rate of $1.20/share Jan. 1981

Broad Diversification—World's leading producer of electrical/electronic connection, switching and programming devices—70,000 types and sizes, 85,000 customers (manufacturers, distributors, retailers, utilities, transportation field, etc.) Subsidiaries and branches in 25 countries (AMP-N.Y.S.E.).

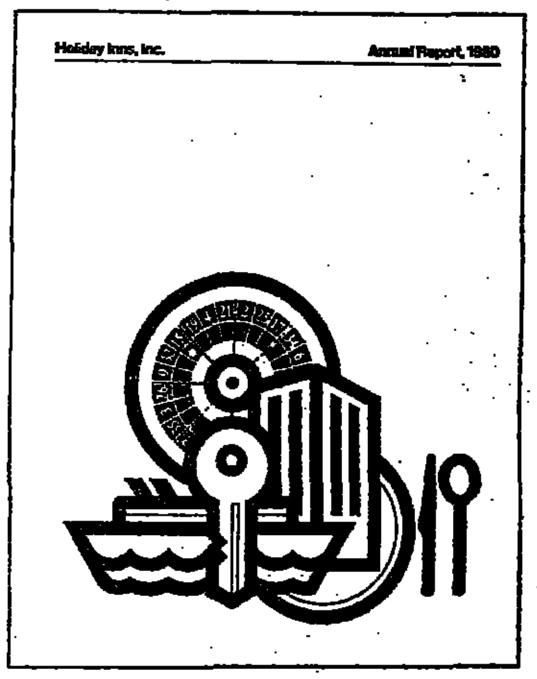
Borg-Warner Corporation

Diversification and increased profits from service businesses made 1980 the third best year ever for Borg-Warner. The company's achievement was in face of serious problems in the U.K. and U.S. auto markets. Borg-Warner's 18% equity ownership of Hughes Tool Company added significantly to earnings. Borg-Warner is listed on the London Exchange. Symbol, BOR.



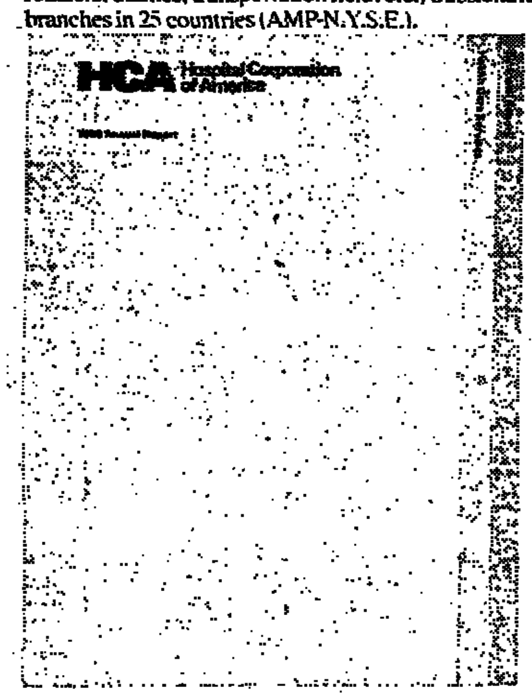
Crum and Forster

Crum and Forster is an insurance holding company with total premiums exceeding $2.3 billion (net premiums written of $1.7 billion) and assets over $3.9 billion in 1980. C&F concentrates its activity in commercial property-liability insurance, in which it ranked fifteenth among the 2,000 active U.S. companies last year. The company's high rate of earnings and dividend growth enabled it to rank first among the *Fortune* magazine "50 Largest Diversified Financial Companies" in total return to stockholders over the last ten years.



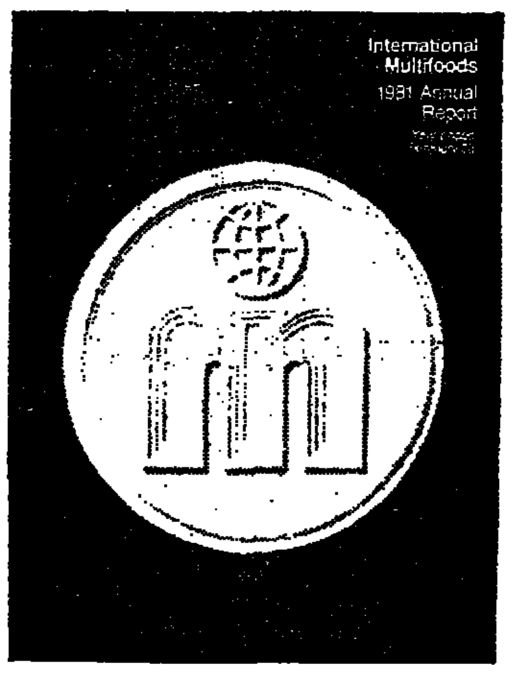
Holiday Inns, Inc.

Holiday Inns, Inc. entered the decade a restructured company, with leading positions in the growth industries of lodging, casino gaming, family restaurants and shipping. 1980 EPS from continuing operations rose 30% to $2.92. Return on Equity advanced to 16.1% from 12.1% in 1979, and dividends increased for the 17th consecutive year.



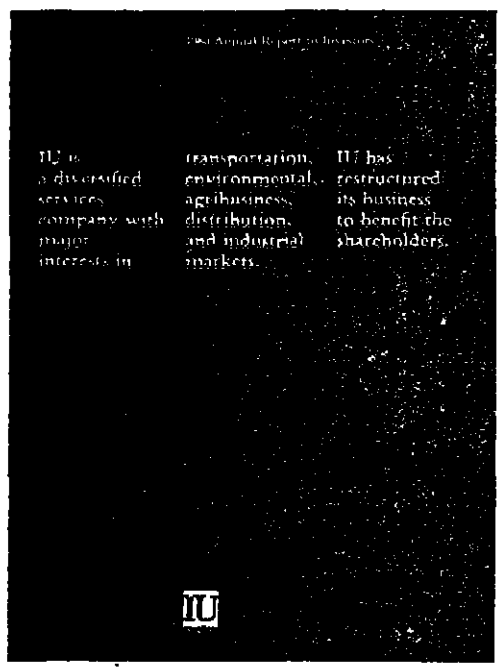
Hospital Corporation of America

HCA (NYSE listed) operates health care facilities in over 200 communities worldwide. HCA was the first U.S. company ever to pass $1 billion in revenues after only 12 years of existence. Since HCA's beginning, both revenues and net income have increased at a compounded rate of 30 per cent per year. Revenues in 1980 totalled $1.4 billion while net income increased 49 per cent. In April, 1981, HCA issued $80 million of Eurodollar Convertible Subordinated Debentures, the largest such offering ever by a U.S. company.



International Multifoods Corporation

International Multifoods Corp. is a billion dollar food manufacturing, processing and marketing company with 13 consecutive years of earnings growth from continuing operations in four worldwide markets: Industrial, Consumer, Agriculture, and Away-From-Home Eating. IMC has increased the dividend paid to shareholders in each of the last nine years.



IU International

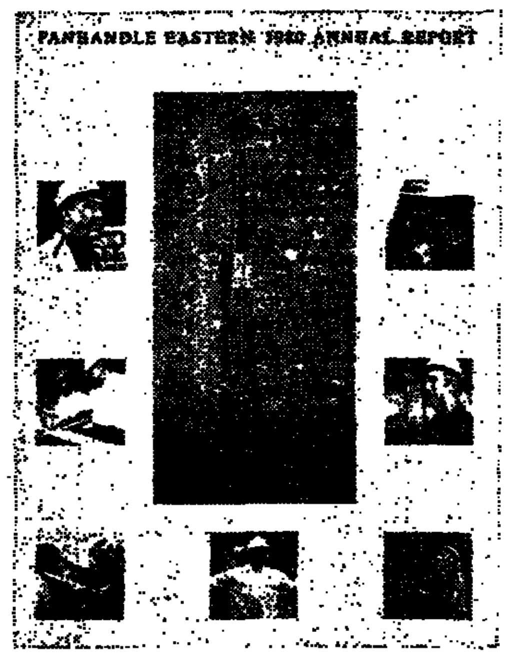
IU International is a diversified company serving transportation, environmental, agribusiness, distribution and industrial markets. Its newest venture is a Canadian gold mine which will be in production in 1982.

In 1980, earnings from continuing operations doubled to $2.72 per share on revenues of $2.2 billion. Return on common equity was 23% and the dividend was increased for the 36th consecutive year. (NYSE Symbol: IU)

Nabisco, Inc.

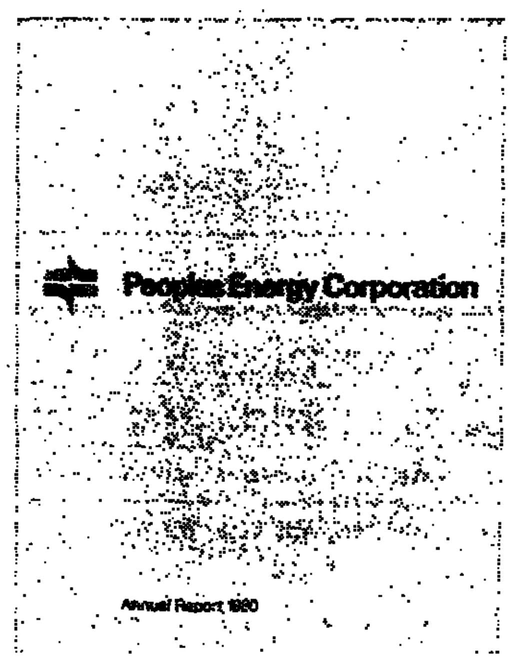
A worldwide consumer products company, Nabisco is primarily known as a manufacturer of quality cookies, crackers and snacks, marketing its products in more than 100 countries around the world. The Company is also known for confectionery products and pet foods. Nonfood products include popular toiletry and pharmaceutical brands, as well as household accessory items.

Sales reached a new high of $2.57 billion in 1980, with earnings of $3.96 per share. Nabisco has increased the dividend six times during the past five years to the current indicated annual dividend rate of $1.80 per share.



Panhandle Eastern

Record levels of net income and earnings per share made 1980 a banner year for Panhandle Eastern, a diversified energy company engaged in natural gas transmission, oil and gas exploration and production, contract well drilling and coal mining. Net income was up 24 percent and has grown at a compound rate of 22 percent over the last five years. Consolidated capital expenditures are budgeted at more than $800 Million, the highest in the Company's history.



Peoples Energy Corporation

Diversified Chicago-based energy company with subsidiaries engaged in natural gas transmission and distribution, oil and gas exploration and development, contract drilling, and coal mining and marketing. Total assets of $3.3 billion. Cash dividends paid each consecutive quarter since 1939. Current annual rate $3.08. Listed New York and Midwest Exchanges. Ticker symbol: PGL.

SmithKline Corporation

SmithKline Corporation is a diversified worldwide corporation devoted to the research, development, manufacture and marketing of health care and related products. The Company also has a network of clinical laboratories in the United States and Canada. Innovative product introductions have brought the Company a leadership position in ethical and proprietary pharmaceuticals, animal health products, eye care products and ultrasonic technology. Sales of $1.8 billion in 1980 were up 23 percent. Net income increased 25 percent to $308 million ($4.65 per share). Dividends per share: $1.725.

Please send me the following Annual Reports.

- ☐ 01 Alcan Aluminium Limited
- ☐ 02 AMP Incorporated
- ☐ 03 Borg-Warner Corporation
- ☐ 04 Crum and Forster
- ☐ 05 Holiday Inns, Inc.
- ☐ 06 Hospital Corporation of America
- ☐ 07 International Multifoods Corporation
- ☐ 08 IU International
- ☐ 09 Nabisco, Inc.
- ☐ 10 Panhandle Eastern
- ☐ 11 Peoples Energy Corporation
- ☐ 12 SmithKline Corporation

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WORLD STOCK MARKETS

NEW YORK

Wall St mixed at mid-session

FAILING TO maintain a firm start, Wall Street slipped back to make a mixed showing at mid-session after moderate activity.

Analysts said the market's subsequent weaker tone reflected continuing concern about the outlook for the economy and interest rates, despite the encouragement provided by last Friday's report of a larger-than-expected decline *in the money* supply for the latest reporting week.

The Dow Jones Industrial Average, up 1.30 at the outset, was a net 2.60 easier at 969.12 at 1 pm. The NYSE All Common index was just one cent ahead at $76.27, after touching $76.46, while rises and falls were about evenly matched. A total of *28.39m shares* were traded, compared with last Friday's 1 pm figure of 31.55m. U.S. markets were closed on Monday for Memorial Day.

U.S. Shoe climbed 2¾ to $44 on substantially higher first-quarter net earnings and a 50 per cent stock dividend.

Tosco gained 1¾ to $27 on stating that a Colorado businessman had acquired 1.23m shares and may sek to acquire the company.

Recognition Equipment declined $1 to $12¾. It had a second-quarter loss.

Among Computer issues, **IBM** eased ¼ to $55¼ in active trading and **Computervision** lost ¾ to $91½, but **Digital Equipment** put on 2¾ to $106½ and **Burroughs** ¾ to $42¾.

THE AMERICAN SE Market Value Index managed a net gain of 1.63 at 375.16 at 1 pm. Volume, 4.13m shares.

Canada

Shares were mixed to easier at mid-day after fairly active dealings. The Toronto Composite index shed 1.5 to 2,362.5 and Golds 28.2 to 4,433.4.

Closing prices for North America were not available for this edition.

Milan

Prices closed sharply lower across the board following frantic selling on news of the Italian Government's resignation, and also further pressure on companies that are part of the Banco Ambrosiano group. The Banca Commerciale Italiana index, after slipping 5.99 on Monday from its high for the year, fell 9.20 yesterday to 272.14.

Selling in **Centrale, Credito Varesino** and **Toro Assicurazioni**, was first triggered by last week's arrest of Roberto Calvi, chairman of **Banco Ambrasiano** and **Centrale** on charges of illegal transfer of funds abroad.

Support action in the final part of the session stopped the fall of several issues but failed to reverse the trend. Trading was heavy and the session lasted about two hours longer than usual. In the unofficial after-Bourse trading the trend was firmer on continuing efforts by banks to bolster the market.

Centrale, which had dropped to L8,700 in the first part of the session, closed at L8,950, a slump *of L1,050 from the previous day.* However, it was quoted at L9,500 in the after-Bourse. Toro were L2,500 weaker at L61,000.

Tokyo

The market displayed an easier tendency overall, with large-capital issues generally losing ground on profit-taking. However, fresh demand pushed Motors sharply ahead and left most Light Electricals and a few other Blue Chips higher.

This enabled the Nikkei-Dow Jones Average *to improve* a further 15.41 to 7,576.18 and lifted the Tokyo SE index 2.38 more to a 1981 peak of 561.25, although declines outscored gains on the First Market section by 336 to 267.

Trading was again moderate on this, the last business day for transactions this month in margin trading, many investors having paused in view of the yen's fall against the U.S. dollar and slower foreign purchases. Volume amounted to 380m shares, against Monday's 350m.

Toyota Motor advanced Y100 to Y1,110, **Honda Motor** Y60 to Y1,000, **Nissan** Y34 to Y864, *Isuzu* Y25 to Y391 and *Toyo* Y23 to Y373, while Sony climbed Y60 to Y5,490, **Matsushita Electric** Y50 to Y1,780, **Sharp** Y19 to Y840 and **Fuji Film** Y20 to Y1,720.

Mitsubishi Heavy retreated Y7 to Y308 after the results.

Minolta Camera fell Y35 to Y850 despite an announcement that its after-tax profit nearly doubled to Y4.51bn, but **Citizen Watch** added Y5 at Y380 following a rise in sales and after-tax profits.

Fuji Heavy rose Y34 to Y415 in response to a sharp after-tax *profits rise* to Y11.33bn.

Hong Kong

After the modest technical reaction of the past two business days, shares put on a renewed show of strength yesterday in increased activity. Brokers were rather puzzled over what sparked the fresh advance, but were convinced that the underlying bull trend would carry prices even higher.

The Hang Seng Index moved ahead 44.45 to 1,633.35, resurmounting the 1,600 mark early in the day and continuing upwards with interest focused on the Blue Chips. Several brokers said the force of the buying would push the index to the 1,700 level.

Turnover picked up to HK$502.75m on the four exchanges from Monday's HK$441.05m. An analyst described the activity as "excellent" *considering New York and* London were on holiday on Monday.

A rights issue by **International City Holdings** was many times oversubscribed, and brokers said that the news was renewing confidence in the stock market.

Paris

The market continued to rally in light volume from its recent very depressed level, the CAC General index recouping 1.7 more at 90.1.

Market observers said the improvement was partly technical, reflecting buying of French stocks by Mutual Funds which come under the 1978 "Monory law." These Funds are obliged to have 60 per cent of their portfolio in French stocks at the end of every calendar month. Backing up this appreciation was the fact that foreign stocks, into which the Funds had switched when the Paris stock market plunged two weeks ago, were marked *down* without exception.

Germany

Buying interest returned to the market at somewhat lower levels, and most shares closed higher on the day after a mixed start.

Lufthansa, however, after rising to DM 74, declined to DM 72.50, off 50 pfennigs on balance, following news of a dividend omission and sharply lower 1980 profits.

Australia

The Blina oil find in the Canning Basin area of Western Australia continued to generate speculative buying in the Oils sector, although afternoon profit-taking eroded gains in a few of the recent strong performers.

Blina partner **Vamgas**, after a two-day rise of A$3.90, climbed to A$15.00 be fore ending only 10 cents higher on the day at A$14.80. **Eagle** shed 5 cents at A$1.20, while **Woodside**, which has a 53 per cent stake in Vamgas, also slipped 5 cents to A$2.43.

Santos receded 14 cents to A$6.96, but **Magellan** moved ahead 60 cents to A$8.20 and Asia Oil 6 cents to 38 cents.

Western Mining, due to begin a Canning Basin oil exploration programme next week, added 24 cents at A$5.66.

CANADA

BELGIUM (continued)

HOLLAND

AUSTRALIA

JAPAN (continued)

DENMARK

FRANCE

ITALY

NORWAY

SWEDEN

GERMANY

SWITZERLAND

AUSTRIA

BELGIUM/LUXEMBOURG

HONG KONG

SINGAPORE

SOUTH AFRICA

BRAZIL

NEW YORK Indices — DOW JONES

STANDARD AND POORS

N.Y.S.E. ALL COMMON

MONTREAL

TORONTO

NEW YORK ACTIVE STOCKS

Cocoa decline continues

By Richard Mooney

THE RECENT slide in cocoa prices continued yesterday with the July position on the London futures market falling £24 to £866.5 a tonne. Nearby prices have lost around £80 a tonne so far this month.

Producer selling continued to provide most of the downward pressure. There was continuing talk of selling by Nigeria, which had been largely responsible for the recent price decline, but the main influence was the emergence of substantial selling from the Ivory Coast, the world's biggest cocoa producer. Dealers said this had been aided by the weakness of the French franc, to which the Ivory Coast's currency is linked.

Chartist and speculative selling has featured in the latest decline but some traders suggested yesterday that with the market heavily oversold, downward pressure might soon ease. Others said, however, that this was unlikely while West African producers remained keen sellers.

The Ivory Coast's continued refusal to sign the International Cocoa Agreement, inspite of the urgins of fellow members of the Cocoa Producers' Alliance, is a further depressing influence on the market. Without the backing of the Ivory Coast or the U.S., the world's biggest consumer, prospects for the agreement effectively stabilising the cocoa market must be regarded as slim.

More UK cereals planted

By Our Commodities Staff

BRITISH CEREALS farmers have increased plantings by 1 per cent this year, according to a survey carried out by the Home-Grown Cereals Authority.

If last year's high yields are matched, this will take the 1981 crop to 19.4m tonnes, beating the 1980 record of 19.2m. But if they fall back to the average level for the last five years total output will only be about 17.7m tonnes, the HGCA said.

The survey shows wheat plantings are 3 per cent up at 1.48m hectares, barley virtually unchanged at 2.3m and oats down 3 per cent at 139,400.

The British Sugar Corporation said yesterday that sugar beet plantings had been completed on 210,000 hectares out of the 215,000 contracted to the corporation for the 1981-82 crop.

Silver at one-year low

BY JOHN EDWARDS, COMMODITIES EDITOR

SILVER PRICES dipped to the lowest level for a year yesterday. The London bullion market spot quotation was cut by 16.8p to 499.5p ($10.335) a troy ounce at the morning "fixing" and values eased further in afternoon trading.

Dealers attributed the decline to the fall in gold, which also cut the London free market platinum price to £213.55 an ounce.

Speculative interest in silver has been very subdued since the Bunker Hunt crisis last year. Trading volume in New York and Chicago has been reduced to a low ebb. At the same time the aftermath of the 1979-80 price boom, and the prolonged economic recession, has badly hit industrial demand for silver.

Expectations of bargain hunting at the lower price levels for silver, which traded at over $21 early last year, failed to materialise yesterday as values were marked down in quiet trading.

Other metal markets were generally depressed and inactive. The recent rise in U.S. interest rates appears to have killed hopes for a quick recovery in the American economy and this has put the copper market in particular under pressure. Cash wirebars lost another £4.25 to £827.5 a tonne yesterday.

Workers at the El Teniente copper mine in Chile failed to vote in sufficient numbers to end the five-week strike there. But talks are continuing on a new formula for a settlement. Meanwhile copper stocks held in the LME warehouses rose last week by 1,075 tonnes to a total of 118,575 tonnes.

Talks to end the seven-week strike at St. Joe Minerals lead milling and mining plants have broken down again and the company is reported to be buying supplies of ore concentrates with a view to re-opening its Herculaneum smelter.

Stocks of lead held in LME warehouses rose by 3,025 to 50,025 tonnes. And the cash price closed £5 lower at £326.25 a tonne. There was a marginal increase in zinc stocks, up by 50 tonnes to a total of 37,950 tonnes, but market prices were held up by trade buying support.

Tin prices came under pressure again, following a further decline in Penang over the holiday, and LME warehouse holdings rose by 155 to 7,735 tonnes. LME silver holdings were also higher, by 90,000, to 24,390,000 ounces. But aluminium stocks fell by 1,475 to 50,550 tonnes and nickel by 36 to 2,382 tonnes.

EEC cane imports freight plan

BY LARRY KLINGER IN BRUSSELS

The European Commission is expected to propose a formula for alleviating some developing countries' growing freight costs when the EEC Council of Ministers again takes up the politically charged issue of cane sugar imports.

The EEC offer of a 7.5 per cent price rise for cane sugar imports into the European Community has been rejected by the more than 60 African, Caribbean and Pacific Ocean (ACP) nations grouped under the Lomé Convention trade and aid agreement with the EEC.

ACP ministers told EEC Agriculture Commissioner Mr. Poul Dalsager on Friday that the 8.5 per cent rise recently awarded to European producers of beet sugar was the minimum acceptable for the developing countries' annual 1.3m tonnes of cane imports allowed under the Lomé sugar protocol.

The issue will be raised at either the Agricultural Council on June 15 and 16 or the Foreign Affairs Council on June 22 and 23.

However, the Commission is expected to suggest that some help might be given to lighten the increasing burden of freight costs rather than propose a further increase in the basic price.

In addition to several ACP nations' being heavily dependent on their sugar industries, the issue is emotionally charged because both the tenor and the outcome of the annual price negotiations are considered barometers of the EEC's relations with the developing countries.

EEC member-countries argue that a higher price could make the marketing of ACP sugar commercially unviable and therefore add a further strain to Common Agriculture Policy (CAP) finances.

Britain in particular is worried about the possible effect on the profit margin of Tate and Lyle, the hard-pressed British company which is the only large-scale EEC sugar refiner.

Britain urged earlier this month a lower price offer, arguing that even 7.5 per cent was above that guaranteed to beet growers, since they are now subject to a 2 per cent tax on all production.

The ACP countries strongly reject this approach. They argue that the tax was imposed to control EEC overproduction, and that the quantity of ACP imports remains fixed and therefore there "should be no question whatever of such an extraneous factor affecting the ACP price."

The ACP countries are also anxious that an EEC decision is not delayed indefinitely. Aware that EEC member-countries, because of the proposed reshaping of the Community's internal agricultural financing, are disposed to postpone decisions affecting other countries, an ACP spokesman said yesterday:

Rain hits Queensland crop

BY COLIN CHAPMAN IN SYDNEY

STRONG WINDS and rain that have lashed the Queensland coastal belt could have cost the Australian sugar industry between $A80m and $A100m, with production 300,000 tonnes down.

The Queensland Cane Growers' Council says that the damage to the crop, much of it lying toppled in the fields making harvesting more difficult, could cause an average drop in sugar content of more than 1 per cent.

The rain, of course, has delighted the grain and cattle industries but it has put paid to the big boost in production expected by the sugar industry, though the QCGR said it still expected raw sugar production to be above the previous record, in 1977, of 3.34m tonnes.

Cane that is lying down and flattened can still be harvested, but the operation is more difficult, with the plants going to the mills containing more foreign matter which has to be removed at extra cost.

Heavy rains in the last few days have also affected sugar harvesting in the Dominican Republic.

Sr. Jesus Ovalle, general co-ordinator of the state's sugar council, CEA, said several sugar cane growing areas are isolated and flooded roads are preventing the movement of sugar cane to the mills.

USSR cuts timber prices

By a Correspondent

EXPORTLES, THE Soviet state selling organisation for forest products, has circulated its second schedule of softwood to UK importers.

After the cool reception afforded to the first schedule in February it had been widely expected that the Russians would have to reduce their prices to attract the strong buying response needed to fulfil their target of placing around 800,000 cubic metres of softwood in the UK this year.

The present schedule shows average price reductions of around 15 per cent when differentials and the new currency basis is taken into account and the first reaction in the trade is that the Russian wood is now offered at a more reasonable level.

The nominal amount of wood offered in the schedule is 250,000 cubic metres, but it is believed that there is at least twice this amount available if the applications, which have to be in by Friday (May 29), exceed the nominal offer.

The fall clause which was added to the first schedule has been activated by this second offer at lower prices, and importers who bought a total of some 160,000 cubic metres at the first offering will now get their wood at the lower prices at the second. Recognising the fall in the pound since the first offer, the currency basis has been adjusted from SKr 10.50 to SKr 10.20 to the pound sterling.

Scandinavian mills which had been trying to maintain their prices in a weakening market may now have to revise their ideas in those grades which sell in competition to the Soviet wood.

Turkish coffee imports resume

By Metin Munir in Ankara

THE three-year long shortage of Turkish coffee in Turkey, which came to symbolise the country's economic crisis, is to come to an end soon.

The Government decided last week to resume coffee imports, stopped three years ago because of a shortage of foreign currency. The state monopoly has been authorised to import 1,000 tons of coffee, primarily to meet the requirements of hotels, restaurants and places of entertainment serving tourists.

COMMODITY AGREEMENTS

Hope fades for jute pact

BY BRIJ KHINDARIA IN GENEVA

CHANCES for an international agreement on jute and jute products seem to have worsened at a UN conference here last week which adjourned without accord on the date for a new session.

A statement issued at the end of negotiations said further talks will be held as soon as Mr Felipe Jaramillo of Columbia, as chairman, feels there is enough ground for compromise. Mr Jaramillo has prepared a draft text of agreement which papers over almost all the main disputes between exporters and importers as well as among the exporters. But delegates say almost all the planned agreement provisions have yet to be agreed upon.

The main difficulties as outlined by Mr Jaramillo concern distribution of votes within the proposed agreement's decision-taking council, which will also run the International Jute Organisation (IJO), the accord's secretariat.

Under the main suggestion, votes will be split equally among exporters and importers, and each group will be left to decide for itself the further distribution among its members.

Differences remain within the exporters' group on whether votes given to each of its members should reflect importance as a producer or as an exporter in volume or value terms.

Serious dissention continues over whether the IJO would merely promote studies into cost-cutting measures or would also raise finances needed to implement those measures in both plantations and mills. Importers think that raising money amounts to foreign aid which is best handled by institutions such as the UN Development Programme (UNDP), the Food and Agriculture Organisation (FAO), and the World Bank.

GOVERNMENTS should urgently consider ways of stabilising the price of three hard natural fibres—sisal, abaca and coir—which are steadily losing ground to synthetic products, Unctad commodities division chief has said. Last year export volume and prices both continued to fall, according to UN Food and Agriculture Organisation figures. Production of these fibres is concentrated in India, Sri Lanka, Philippines and a number of African and South American countries.

But the difficulties now go well beyond technical matters arising from how the accord should be run. The jute agreement is being seen as the pace setter for other planned commodity accords such as for coir, tea and cotton. The U.S. and the Common Market are reluctant to give up too much on jute for fear that they will be faced with irresistible demands for similar concessions on other commodities.

Importers recognise that mills making jute products in the U.S. and the EEC are voluntarily cutting capacity because of high costs and more lucrative synthetic fibre markets. Benefits of such cuts go to the developing countries, especially India which is the largest exporter of jute products.

Although western governments no longer face sharp pressure from home industry to slow down imports of low cost jute products, they feel that as a point of principle they should not allow commodity agreements to turn into mechanisms to transfer investment and foreign aid funds.

But the Indian and Bangladesh manufacturers have outdated machines and urgently need more investment to protect their total share of western markets for jute products. Failure to do so would allow synthetic replacements to run developing countries' exports out of the market.

The exporters insist that an agreement without provisions to implement as well as suggest cost cutting and other measures would be useless because it would not help them to become more competitive. Indian jute product exporters also face stiff competition from Bangladesh-made goods, especially jute cloth used as an underlay for backing for machine-made carpets, particularly in the U.S. Although India's home market for jute products is increasing, the demand is for jute sacks rather than carpet backing because Indian carpets are mostly hand made.

Pacts progress 'discouraging'

THE HAGUE — Lack of progress in negotiating international commodity agreements was described as discouraging by Mr Gamani Corea the General Secretary of the United Nations Conference on Trade and Development.

Mr. Corea said, at the opening of a 10-day Unctad conference, that negotiation of a Common Fund to finance commodity agreements had been a hopeful sign. But ratification of the Fund agreement by some countries was too slow, and anyway the fund had no purpose without commodity agreements to draw on it.

Against a background of falling prices in many commodities, producers and consumers have examined ways to stabilise markets such as metals, cocoa, jute and tea. But the only really satisfactory agreement so far achieved has been for rubber.

Mr. Corea noted that four rounds of talks have still produced no agreement for tin and the cocoa agreement did not have the approval of the Ivory Coast, the main producer, nor the U.S., the main consumer.

Unctad will meet in Paris in September to draw up specific development strategies for 31 of the world's poorest countries in the coming decade. Many of these countries depend financially on the export of one or two commodities.

Meanwhile in Kuala Lumpur, Malaysian Primary Industries Minister Paul Leong said he appealed to those countries which have not fully acceded to the International Natural Rubber Agreement (INRA) to do so as soon as possible.

Opening the second meeting of the International Natural Rubber Council, Datuk Leong said INRA was in force provisionally but it would not be definitively in force until more countries accede fully.

He did not say how many countries had yet to join the pact fully.

Datuk Leong said full accession was important as member countries could not be assured there was a real commitment towards financing the 550,000 tonne buffer stock unless participating countries had ratified, acceded or applied the agreement definitively.

The pact came into force provisionally last October after countries accounting for 72 per cent of world imports and 73 per cent of production acceded to the agreement. Reuter

BRITISH COMMODITY MARKETS

BASE METALS

BASE-METAL PRICES were generally easier in quiet trading on the London Metal Exchange. Increases in stocks in LME warehouses depressed COPPER, which closed the late Kerb at £853.5, TIN, which ended the day at £6,225 and LEAD, which closed at £337 in the wake of hedge selling. ZINC was again well supported around the £400 level and closed at £402.75, having dipped to £399 in the morning Rings. ALUMINIUM and NICKEL moved narrowly prior to closing the afternoon Kerb at £641 and £3,055 respectively.

COPPER	a.m. Official	+ or —	p.m. Unofficial	+ or —
	£	£	£	£
Wirebars				
Cash	828.5-9	−3	827-8	−4.25
3 months	853.5	−2.5	852.5	−3.5
Settlem't	829	−3	—	......
Cathodes				
Cash	822.5	−4	821-2	−5.25
3 months	842.5	−2.25	841-2	−3
Settlem't	822.5	−4.5	—	......
U.S. Prod			*80.5-8	......

Amalgamated Metal Trading reported that in the morning cash wirebars traded at £829, three months £856, 55, 53, 53.5, 53. Cathodes, cash £823, 22.5, three months £842.5. Kerb: Wirebars, three months £853, 52, 52.5, 53, 54, 53.5. Afternoon: Wirebars, three months £851.5, 51, 51.5, 52. Kerb: Wirebars, three months £853, 52.5, 53, 53.5, 53. Turnover: 31,425 tonnes.

TIN	a.m. Official	+ or —	p.m. Unofficial	+ or —
High Grade	£	£	£	£
Cash	6075-80	−77.5	6070-80	−80
3 months	6215-20	−58	6212-5	−62
Settlem't	6080	−80	—	......
Standard				
Cash	6075-80	−77.5	6070-80	−80
3 months	6215-20	−58	6212-5	−62
Settlem't	6080	−80	—	......
Straits E.	$29.29	−0.06		......
New York	—	......		

Morning: Standard, cash £6,080, 70, three months £6,240, 30, 20, 15. Kerb: Standard, three months £6,215, 25, 30. Afternoon: Standard, three months £6,220, 10, 05, 10, 12. Kerb: Standard, three months £6,215, 20, 25. Turnover: 1,180 tonnes.

LEAD	a.m. Official	+ or —	p.m. Unofficial	+ or —
	£	£	£	£
Cash	327.5-8	−3.5	325-.5	−5
3 months	338-.5	−3.25	335-.5	−5.25
Settlem't	328	−3.5	......	......
U.S. Spot	—	......	*38	......

Morning: Cash £328, 28.5, 28, 28, three months £338, 37, 36, 35, 35.5, 36, 35, 35.5, 36, 38. Kerb: Three months £337, 38. Afternoon: Three months £336.5. Kerb: Three months £337, 37.5, 37, 38.5, 37. Turnover: 10,625 tonnes.

ZINC	a.m. Official	+ or —	p.m. Unoffic'l	+ or —
	£	£	£	£
Cash	395-6	+4.62	392.5-3.5	+2.12
3 months	404-.5	−4.25	402-.5	+2
S'ment	396	+5	—	......
Primw'ts	—	......	*46.12	−.75

Morning: Three months £399, 400, 01, 2, 1, 3, 4, 5, 6, 5. Karb: Three months £403.5, 3, 4. Afternoon: Three months £403, 2. Kerb: Three months £403, 2. Turnover: 9,375 tonnes.

Alumin'm	a.m. Official	+ or —	p.m. Unoffic'l	+ or —
	£	£	£	£
Spot	624-.5	−2.75	622-3	−4.75
3 months	645-4	−2.25	641-.5	−4.5

Morning: Three months £645, 44.5, 44, 43. Korb: Three months £643. Afternoon: Three months £643, 42, 41. Karb: Three months £641. Turnover: 5,375 tonnes.

NICKEL	a.m. Official	+ or —	p.m. Unoffic'l	+ or —
Spot	3020-5	−7.5	3010-5	−17.5
3 months	3070-5	−10	3060-5	−20

Morning: Three months £3,070. Afternoon: Cash £3,015, three months £3,070, 65, 60. Karb: Cash £3,020, three months £3,065, 58, 55. Turnover: 918 tonnes.

* Cents per pound. ‡ M$ per kilo. † On previous unofficial close.

SILVER

Silver was fixed 16.8p an ounce lower for spot delivery in the London bullion market yesterday, at 499.5p. U.S. equivalents of the fixing levels were: spot $10.335, down 31.6c; three-month $10.632, down 33.3c; six-month $11.279, down 37.5c; and 12-month $12.146, down 40.5c. The metal opened at 503-510p ($10.40-10.55) and closed at 493-500p ($10.20-10.35).

SILVER per troy oz.	Bullion fixing price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	499.50p	−16.8	498.5p	−15.75
3 months	514.55p	−18½	512.75p	−15.75
6 months	531.55p	−17.15	—	......
12months	565.50p	−17.0	—	......

LME—Turnover 59 (122) lots of 10,000 ozs. Morning: Three months 516, 15, 15.5, 16, 16.5, 15, 14.5, 15. Karbs: untraded. Afternoon: three months 512, 11, 10, 11, 13. Karbs: three months 513, 14.

COCOA

Dealer hedging of further producer sales coupled with fresh Commission House and Chartist selling caused futures to weaken and trade at new life-of-contract lows during an active day, reports Gill and Duffus. Manufacturers continued purchasing on a scale down basis while further interest for nearby resale cocoa was evident.

Sales: 5,300 (2,414) lots of 10 tonnes.

COCOA	Yes'rday's Close	+ or —	Business Done
May	848-849	−27.0	878-850
July	866-867	−24.0	892-864
Sept.	889-890	−21.0	912-886
Dec.	919-920	−20.0	940-917
March	947-948	−18.0	964-947
May	962-967	−20.0	982-970
July	976-978	−20.5	998-977

ICCO Futures—Daily price for May 22: 85.26 (85.78); five-day average 86.17 (86.64).

COFFEE

A slightly lower opening attracted some early dealer support despite a weak previous close and the recent easier tendency, reports Drexel Burnham Lambert. Further losses were posted during a quiet afternoon before a recovery in New York prices encouraged some short covering in light volume.

COFFEE	Yesterday's Close	+ or —	Business Done
	£ per tonne		
May	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]
Sept.	[illegible]	[illegible]	[illegible]
Nov.	[illegible]	[illegible]	[illegible]
Jan.	[illegible]	[illegible]	[illegible]
March	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]

Sales: 2,072 (4,076) lots of 5 tonnes.

ICO Indicator prices for May 22 (U.S. cents per pound): Comp. Daily ICA 1976 113.92 (114.54). 20-day average 118.67 (119.03).

GAS OIL FUTURES

The market traded in a narrow range all day as traders were unwilling to commit themselves to new positions in the absence of any firm news from the OPEC meetings before the close, reports Premier Man.

Month	Yesterday's close	+ or —	Business Done
	$ U.S. per tonne		
June	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]
November	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]
January	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]

Turnover: 614 (540) lots of 100 tonnes.

GRAINS

New crops came under pressure for most of the day from hedge selling on a light volume, and despite some commercial buying interest closed 15p to 35p down on the day, reports Acli.

Mnth	WHEAT Yesterd'ys close	+ or —	BARLEY Yesterday's close	+ or —
July	115.75	−0.65	—	—
Sep.	101.30	−0.35	95.50	−0.40
Nov.	104.90	−0.35	99.00	−0.30
Jan.	108.80	−0.30	102.55	−0.25
Mar.	112.50	−0.30	105.85	−0.20

Business done—Wheat: July 116.50-115.75, Sept no trades, Nov 105.15-104.90, Jan 109.05-108.80, March 112.70 one trade. Sales: 69 lots of 100 tonnes. Barley: Sept 95.80-95.30, Nov 99.05-99.00, Jan 102.65 one trade, March 106.05-105.95. Sales: 73 lots of 100 tonnes.

LONDON GRAINS—Wheat: U.S. Dark Northern Spring No. 2 14 per cent June 105.25, July 104.75, Aug. 105.25 transhipment East Coast. U.S. Hard Winter 13½ per cent June 105.75, July 104.50, Aug. 104.75 transhipment East Coast. Maize: S. African Yellow June/July 90.00 seller. Barley: English Feed fob Aug. 97.50, Oct.-Dec. 103.50 seller. Rest unquoted.

HGCA — Locational ex-farm spot prices: Other milling wheat: S. East 118.00. Feed barley: S. East 101.00, S. West 103.00, N. West 102.00. The UK Monetary Coefficient for the week beginning Monday, June 1 (based on HGCA calculations, using five-day exchange rates) is expected to remain unchanged.

RUBBER

The London physical market opened about unchanged, with little interest throughout the day, closing quiet. Lewis and Peat reported a fob June price for No. 1 RSS in Kuala Lumpur of 274.0 (275.5) cents a kg and SMR 20 241.0 (242.5).

No 1. R.S.S.	Yest'r'ys close	Previous close	Business Done
June	58.10-58.70	57.70-57.90	—
July	60.40-60.60	63.40-59.50	—
Jly-Sept	60.50-60.60	60.60-60.70	60.60-60.40
Oct-Dec	63.60-65.90	63.70-63.90	64.00-63.50
Jan-Mar	66.60-66.90	66.60-66.80	66.80-66.40
Apl-Jne	69.70-69.80	69.60-69.90	—
Jly-Sept	72.60-72.70	72.50-72.80	—
Oct-Dec	75.50-75.60	75.50-75.80	—
Jan-Mar	78.40-78.50	78.40-78.60	—

Sales: 110 (235) lots of 15 tonnes, nil (24) at 5 tonnes. Physical closing prices (buyers) were: Spot 58.00p (same); July 60.25p (60.50p); Aug. 60.75p (61.50p).

SOYABEAN MEAL

The market opened with small losses and drifted in quiet trading conditions, reports T. G. Roddick. Improved planting conditions in the U.S. pressured prices which closed about £1 lower on the day.

	Yesterdays Close	+ or —	Business Done
	£ per tonne		
June	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]
February	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]

Sales: 55 (91) lots of 100 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar £189.00 (£192.00) a tonne cif May-June-July shipment. White sugar daily price £265.00 (£265.00).

The market opened around previous levels and was contained within a narrow range in very quiet trading conditions, reports C. Czarnikow.

No. 4 Contract	Yest'rdy's Close	Previous Close	Business Done
	£ per tonne		
Aug.	190.05-90.25	189.00-89.15	190.25-87.00
Oct.	191.05-91.25	189.80-90.05	191.50-88.25
Jan.	191.00-92.00	190.50-90.70	—
March	194.00-94.25	192.75-93.00	194.25-91.50
May	195.25-95.50	194.00-94.50	195.25-93.75
Aug.	196.50-97.00	195.25-95.75	—
Oct.	197.50-98.50	196.50-97.25	—

Sales: 3,001 (11,188) lots of 50 tonnes.

Tate and Lyle ex-refinery price for granulated basis white sugar was £342.5 (same) a tonne for home trade and £281.5 (£284.0) for export.

International Sugar Agreement (U.S. cents per pound) fob and stowed Caribbean port. Prices for May 22: Daily price — (15.16); 15-day average — (14.65).

COTTON

LIVERPOOL—Spot and shipment sales amounted to 130 tonnes. Operations were light after the holiday weekend, but some support was forthcoming in various American type growths. Activity was mainly in African and Middle Eastern supplies.

WOOL FUTURES

SYDNEY GREASY WOOL—Close (in order: buyer, seller, business). Australian cents per kilo. July 496.0, 497.0, 499.0-496.0; Oct. 492.0, 493.0, 496.0-493.0; Dec. 497.5, 498.0, 501.0-498.0; March 504.0, 506.0, 510.0-506.0; May 510.0, 512.0, 513.5-511.0; July 515.0, 516.0, 515.0; Oct. 514.0, 519.0, nil. Sales: 132.

LONDON NEW ZEALAND CROSSBREDS—Close (in order buyer, seller, business). New Zealand cents per kilo. May 358, 363, nil; Aug. 372, 374, 374-373; Oct. 375, 379, 377-375; Dec. 378, 382, 379; Jan. 379, 382, 379; March 382, 386, 385; May 392, 396, 394-393; Aug. 401, 405, 405-402; Oct. 402, 405, 405-403. Sales: 85.

POTATOES

LONDON POTATO FUTURES—A quiet market, showing little direction until towards the close when Nov found a strong seller, easing prices down on all positions, although Feb and April held up in comparison, reports Coley and Harper. Closing prices: Nov 58.60, −1.30 (high 60.00, low 58.60); Feb 68.00, −0.3 (high 68.40, low 68.00); April 75.00, −0.3 (high 75.50, low 75.00). Turnover: 67 (146) lots of 40 tonnes.

MEAT/VEGETABLES

SMITHFIELD—Pence per pound. Beef: Scottish killed sides 76.6 to 80.1; Ulster Hindquarters 91.8 to 95.2, Forequarters 55.2 to 58.0; Eire Hindquarters 91.2 to 94.4, Forequarters 54.6 to 57.4. Veal: Dutch hinds and ends [illegible]. Lamb: English small [illegible], medium [illegible]; Imported frozen NZ PL [illegible], PM [illegible]. Pork: English, under 100 lbs [illegible], 100-120 lbs [illegible], 120-160 lbs [illegible].

MEAT COMMISSION—Average fatstock prices at representative markets on Monday, May 25. GB—Cattle [illegible] per kg lw ([illegible]). UK—Sheep [illegible] per kg est dcw ([illegible]). GB—Pigs [illegible] per kg lw ([illegible]).

COVENT GARDEN—Prices for the bulk of produce, in sterling per package except where otherwise stated. Imported Produce: Oranges—[illegible] … Red Delicious 9.50-10.50; French: Golden Delicious 40 lb 125/175 3.80-4.60, 20 lb 72 2.40, 84 2.00; Italian: 40 lb Romes 60/70 4.40-4.60; New Zealand: Sturmer Pippins 8.00-8.50, Golden Delicious 7.00, Kidd's Orange 7.50, Red Delicious 7.50-8.50; Tasmanian: Jonathans 6.00, Golden Delicious 7.00, Granny Smith 7.00, Sturmer Pippins 8.00. Pears—Belgian: Conference per pound 0.10-0.12; Italian: Passacrassana 0.12-0.14; S. African: Packhams 6.00-6.80, Beurre Bosc 5.00, Nelis 5.50; Tasmanian: Packhams 40 lb 6.80-7.20; New Zealand: Packhams 7.00. [illegible] … Dutch: new 22 lb 4.50; Cypriot: 22 lb 3.50; Italian: 20 lb 2.80; French: Nantes 26 lb 4.00. Beetroots—Cypriot: New 28 lb 2.60.

English Produce: Potatoes—Per bag [illegible]. Mushrooms—Per pound [illegible]. Apples—Per pound Bramleys [illegible]. Cauliflowers—[illegible]. Cabbages—[illegible]. Lettuces—[illegible]. Tomatoes—[illegible]. Radishes—Per pack of 12 … bunches of 15 1.20. Onions—Per trays 20 bunches, spring 1.50. Celery—Per 15/24 5.50-6.00. Cucumbers—Per 10/20 1.60-2.00.

GRIMSBY FISH—Supply good, demand fair. Prices at ship's side (unprocessed) per stone: Shelf cod [illegible], codlings [illegible], Large haddock [illegible], medium [illegible], small [illegible], Large plaice [illegible], medium [illegible], best small [illegible], Skinned dogfish (large) £7.50, (medium) £7.00. Saithe £1.40-£1.70.

PRICE CHANGES

In tonnes unless otherwise stated.

	May 26 1981	+ or —	Month ago
Metals			
Aluminium	£810/815	......	£810/815
Free Mkt	$1285/1325	......	$1295/325
Copper			
Cash w'bar	£827.5	−4.25	£834.5
3 mths	£852.25	−3.5	£855.25
Cash Cathode	£821.5	−5.25	£826.75
3 mths	£841.5	−3	£843.75
Gold troy oz	$468	−6.5	$482.5
Lead Cash	£326.25	−5	£345.875
3 mths	£336.25	−5.25	£350.25
Nickel	£3,504.50	......	£3,579.50
Freemkt	295/305c	......	298/305c
Platin'mtr'y oz	£230.0	......	£213.6
Freemkt	£213.55	......	£216.20
Quicksilver†	$420/430	......	$420/430
Silver troy oz	499.50p	−16.8	518.50p
3 mths	514.55p	−16.75	533.75p
Tin Cash	£6,075	−80	£5,987.5
3 mths	£6213.5	−62	£6,017.5
Tungsten22.04lb	$143.75	......	$147.54
Wolfrm 22.04 lb	$145/146	......	$144/47.5
Zinc Cash	£395	+2.125	£378
3 mths	£402.25	+2	£388
Producers	$925	......	$875
Oils			
Coconut (Phil)	$600w	......	$585
Groundnut	‡	......	‡
Linseed Crude	£425	......	£424
Palm Malayan	$625y	+15	$580
Seeds			
Copra Philip	$395r	......	$385
Soyabean(U.S.)	$307z	−1	$324
Grains			
Barley Fut.Sep	£95.50	−0.4	£95.80
Maize	£126.75x	‡	£127
WheatFut.Sept	£101.50	−0.35	£102.90
No2 HardWint	£105.75z	−1	£109.20
Other commodities			
Cocoa ship't*	£952	−29	£1,046
Future July	£866.5	−24	£950.5
CoffeeF't July	£979	+12	£1,081.5
Cotton A.Index	87.45c	+1.1	88.55c
Gas oil July	$276.00	−1.75	$273.25
Rubber (kilo)	66p	......	65.5p
Sugar (Raw)	£189ry	−3	£168
Woolt'ps 64s kl	338p kilo	......	328p kilo

‡ Unquoted. u May-June. v June-July. w July-Aug. x June. y July. z Aug. † Per 76-lb flask. * Ghana cocoa.

AMERICAN MARKETS

NEW YORK, May 26.

PRECIOUS METALS and copper were lower on weak currencies and arbitrage selling. Cocoa declined sharply because of pessimism about the implementation of ICCO and on producer selling. Cotton rallied on reports of hail damage to the Texas crop. Reported new wheat sales to PRC helped rally all grains for minor gains. Heating oil drifted lower on a lack of any definite news from the OPEC conference, reported by Heinold.

Copper—May 77.85 (78.20), June 77.95 (78.45), July 79.20-79.40, Sept 82.00-82.05, Dec 85.80, Jan 86.95, March 89.15-89.20, May 91.45, July 93.75, Sept 96.05, Dec 99.40, Jan 100.50, March 102.80.

*Gold—May 465.3 (470.0), June 465.0-466.0 (471.0), July 472.1, Aug 478.0-479.5, Oct 492.5, Dec 504.0-505.5, Feb 518.2, April 531.4, June 54.6, Aug 557.8, Oct 571.1, Dec 584.5, Feb 598.0.

Potatoes (round whites)—Nov 75.1 (74.7), Feb 82.5 (82.0), March 88.0, April 98.9-99.0.

*Platinum—July 444.0-445.0 (447.7), Oct 464.0 (467.2), Jan 484.2, April 503.7.

¶Silver—May 1026.5 (1053.5), June 1028.0 (1056.0), July 1043.0-1046.0, Sept 1076.0-1077.0, Dec 1123.0-1127.0, Jan 1140.0, March 1170.0-1179.0, May 1202.0, July 1233.0, Sept 1264.0, Dec 1310.5, Jan 1326.0, March 1357.0. Handy and Harman bullion spot 1031.00 (1062.00).

Sugar — No. 11: July 16.40-16.50 (15.65), Sept 16.60-16.65 (15.72), Oct 16.37, Jan 16.62, March 16.89, May 17.13, July 17.35, Sept 17.48, Oct 17.60-17.63. Sales: 10,780.

Tin—588.00-593.00 (593.00-598.00).

CHICAGO, May 26.

Lard—Chicago loose 18.75 (same).

Live Cattle—June 68.30-68.20 (67.62), Aug 66.75-66.80 (65.62), Oct 64.55-64.60, Dec 66.70-66.80, Feb 67.85, April 68.85-68.92, June 70.05.

Live Hogs—June 51.25-51.10 (51.22), July 55.00-55.05 (55.20), Aug 55.90-55.75, Oct 53.80, Dec 55.40-55.60, Feb 57.20-57.60, April 58.77, June 57.77, July 58.70.

‡‡Maize—July 345¾-346 (345), Sept 354 (352¾), Dec 360¼-360½, March 372½, May 378½-378, July 383.

Pork Bellies—July 54.15-53.90 (52.35), Aug 53.75-53.90 (52.42), Feb 69.35-69.05, March 69.00, May 71.00, July 72.50, Aug 72.50.

†Soyabeans—July 756-754½ (754¼), Aug 759-760 (760¾), Sept 761-760½, Nov 769½-768½, Jan 788½-788, March 809½-810, May 826-827, July 840.

‖Soyabean Meal—July 216.6-217.0 (218.9), Aug 218.0-218.2 (218.1), Sept 219.0-219.5, Oct 220.0, Dec 224.5, Jan 227.0, March 234.0, May 235.4-236.0.

Soyabean Oil — July 23.41-23.44 (23.48), Aug. 23.85 (23.92), Sept 24.25, Oct 24.60, Dec 25.25-25.22, Jan 25.50-25.55, March 26.05, May 26.40, July 26.70-26.80.

†Wheat—July 406¾-405½ (402½), Sept 425 (420¾), Dec 452¼-452½, March 475½-476, May 485¾, July 489.

WINNIPEG, May 26.

§Barley—May 146.30 (147.00), July 147.30, Oct 145.90, Dec 145.90, March 147.70.

§Wheat—SCWRS 13.5 per cent protein content cif St. Lawrence 256.14 (256.59).

All cents per pound ex-warehouse unless otherwise stated. * $ per troy ounce. ¶ Cents per troy ounce. ‡‡ Cents per 56-lb bushel. † Cents per 60-lb bushel. ‖ $ per short ton (2,000 lbs). § $Can. per metric ton. §§ $ per 1,000 sq. feet. ‡ Cents per dozen. †† $ per metric ton.

EUROPEAN MARKETS

ROTTERDAM, May 26.

Wheat—(US$ per tonne): U.S. Two Dark Hard Winter 13.5 per cent June 200, July 201, Aug. 203, Sept. 207. U.S. No. Two Red Winter June 157, July 159. U.S. No. Two Northern Spring 14 per cent May 203, June 202, July/Aug. 201.50, Sept. 204, Oct. 209, Nov. 211.

Maize (US$ per tonne): U.S. No. Three Corn Yellow afloat May/June 157, July 158, Aug. 160.50, Sept. 161.50, Oct./Dec. 164, Jan./March 173.

Soyabeans—(U.S.$ per tonne): U.S. Two Yellow Gulfports May 302, June 300.50, July 302, Aug. 304, Sept. 304.75, Oct./Nov. 306, Dec. 312, Jan. 317.50, May 327 sellers.

Soyameal—(US$ per tonne): 44 per cent protein U.S. afloat 257, May 258, June 259, July 263, Aug. 266, July/Sept 267, Nov./March 279. Brazil Pellets afloat 265, May 268, June 270.50 traded/sellers, July 275, Aug. 277, July/Sept. 277.

PARIS, May 26

Cocoa—(FFr per 100 kilos): May 970-975, July 1025 asked, Sept. 1060 limit down asked, Dec. 1085-1090, March 1116-1125, May 1141-1155. Sales at call: nil.

Sugar—(FFr per tonne): July 2300-2340, Aug. 2301-2305, Oct. 2240-2250, Nov. 2230-2255, Dec. 2245-2255, March 2323-2330, May 2340-2370, July 2350-2390. Sales at call: 5.

INDICES

FINANCIAL TIMES

May 22	May 21	Month ago	Year ago
253.07	253.10	260.77	268.85

(Base: July 1, 1952=100)

MOODY'S

May 22	May 21	Month ago	Year ago
1078.6	1079.4	1115.9	1106.5

(December 31, 1931=100)

DOW JONES

Dow Jones	May 22	May 21	Month ago	Year ago
Spot	391.80	390.67	408.09	434.63
Fut's	394.97	396.58	419.98	447.43

(Average 1924-25-26=100)

REUTERS

May 26	May 22	M'nth ago	Year ago
1695.1	1699.2	1697.2	1711.1

(Base: September 18, 1931=100)

COMPANY NOTICES

Equities rally in small trading after early dullness induced by BOC £81m rights offer—Gilt-edged better

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
May 18	May 28	May 29	June 8
June 1	June 11	June 12	June 22
June 15	June 25	June 26	July 6

* "New-time" dealings may take place from 9.30 am two business days earlier.

Stock markets started the second leg of the Account in subdued fashion induced by BOC's call for about £81m by way of rights. This further heavy call for funds, which followed hard on the heels of GRE's £78.6m issue, served to restrict investment incentive and resulted in an uninspiring performance in the equity sectors, although the leaders made a noticable improvement in the after-hours on the view that no further equity fund-raising will be announced for the rest of the week.

Leading shares for the most part moved narrowly as illustrated by the FT 30-share index, which fluctuated between extremes of 542.3 and 544.5 from 10.00 am to 3.00 pm. The later firmness left the index with a rise of 4.2 at 547.6.

Business was slow and tended to centre on a few bid and special situation stocks, while weekend Press tips usually resulted in minor gains. Of the few sectors to catch the eye, Insurances recovered from recent dullness imparted by last Friday's rights issue proposal from Guardian Royal Exchange, while investment interest was shown in Merchant Banks.

Gilt-edged securities managed to shake off the recent bout of uncertainty over international interest rates. The tone also benefited from yesterday's final call of £350m on Treasury 2 per cent index linked being out of the way. Although largely technical, the rally was accompanied by scattered buying and, after opening better, long-dated issues finished with gains extending to ⅜.

Demand for Traded options remained disappointingly low. Only 701 contracts were completed, of which Lonrho accounted for 124 and RTZ for 113. Courtaulds recorded 102 deals awaiting tomorrow's annual figures.

Hambros good again

Interest in the banking sector yesterday focused on merchant banks and Hambros in particular; up 95 last week, Hambros met with renewed investment buying ahead of forthcoming preliminary figures and closed 30 higher at a 1981 peak of 810p. Arbuthnot Latham came in for support and closed 18 to the good at 298p, while Manson Finance Trust, 83p, and Leopold Joseph, 220p, gained 5 apiece. Elsewhere, Allied Irish softened a couple of pence to 110p ahead of tomorrow's annual results.

Composite Insurances rallied well after Friday's dullness caused by GRE's £78.6m fund-raising call. GRE at 296p, retrieved half of that day's reaction of 12, while Sun Alliance closed 9 up at 798p and Eagle Star put on 7 to 232p. Life issues made progress in places: Equity and Law added 6 at 386p and Hambro Life 4 to 369p.

Breweries displayed a firmer trend. Greenall Whitley, 143p, and Bass, 233p, both added 3 while Whitbread, aided by Press comment, rose 6 to 178p. Wolverhampton and Dudley picked up 4 at 232p; the interim figures are expected on Friday. Wines and Spirits traded quietly, although Amalgamated Distilled Products attracted call option business and rose 4 to 65p.

Little interest was shown in leading Buildings. A plea from the construction industry to cement manufacturers not to increase prices left Ready Mixed Concrete 4 cheaper at 183p and Blue Circle a couple of pence off at 464p. Elsewhere, Cakebread Robey "A" firmed 3 to 48p in response to the higher annual profits and property revaluation, while UBM, preliminary results tomorrow, added 1½ to 66½p. Press comment prompted revived bid speculation in Montague L. Meyer which put on 4 to 80p.

A couple of pence firmer for most of the session, ICI attracted late interest and the close was 6 up at 292p. Fisons hardened 2 to 162p, while Coalite, preliminary results due June 3, added a penny to 112p.

Stores quiet

Leading Stores passed an exceptionally quiet session and closed with small mixed movements. UDS were firm at 82p, up 3, but Gussies "A" shed 4 at 468p. W. H. Smith added 4 to 182p, and John Menzies responded to demand in a narrow market by rising 10 to 475p. Foster Bros. Clothing, on the other hand, fell 4 more to 88p on the reduced profits. Press comment prompted good support for Fairdale Textile and the ordinary rose 4 to 20p with the "A" adding 3 to 19p. Shoes were also mixed. Headlam Sims and Coggins, 37p, and Strong and Fisher, 77p, both added around 3, but Allied Leather Industries came on offer at 183p, down 15; the last-mentioned is due to announce annual results tomorrow.

Still reflecting a Press suggestion that cuts in defence spending will be less than recently predicted, leading Electricals continued to make progress although demand was small. GEC added 7 to 670p while Plessey improved 4 to 290p and Thorn EMI 8 to 390p. Elsewhere, Sound Diffusion rose 8 to 125p on revived speculative buying and Telephone Rentals put on 5 to 328p in response to Press comment. Vitatron were marked up 10 to 90p. Energy Services and Electronics, on the other hand, cheapened 1½ to 29½p on the cautious statement accompanying the annual results. Dubilier shed 1½ more to 48½p following further consideration of the lower interim profits.

Interest in Engineerings was at a low ebb. Porter Chadburn fell 4 to 58p following the profits setback and dividend reduction, while APV came on offer at 278p, down 7, and Haden Carrier, 362p, and Wolseley-Hughes, 270p, dipped 4 apiece. Johnson and Firth Brown eased to 22p but picked up to finish unaltered at 23p despite news of the near-£3m half-year loss and interim dividend omission. Stone-Platt added 2 to 22p as did Pegler Hattersley, to 166p; the latter's preliminary figures are due next Wednesday. Downiebrae closed unaltered at 22p; the price in Saturday's issue was incorrect.

A Press suggestion that the company could launch a fund-raising operation to coincide with the preliminary results, expected around the middle of next month, left Tesco 1¼ cheaper at 61½p. Also in Food Retailers, Qwik Save encountered small selling and closed 4 down at 203p, after 202p. Elsewhere, Tate and Lyle improved 4 to 186p in front of today's interim results.

Ladbroke firmed 3 to 331p following the acquisition of Wallis's Cayton Bay holiday camp for £1.9m, while Reo Stakis added 2 to 53p in response to the satisfactory half-yearly results and dividend increase. Savoy "A" hardened a penny to 193p following publication of the company's defence document to the Trusthouse Forte offer, but Wheeler's Restaurants shed 10 more to 390p on fading bid hopes.

BOC Int. easier

News of BOC International's £81m convertible preference rights issue which was announced with highly satisfactory half-yearly results saw BOC improve initially to 133p before reacting to close a net 2 easier at 127p. Other miscellaneous industrial leaders were mixed with Metal Box closing a couple of pence off at 198p ahead of annual results next Monday. Unilever rose 12 to 552p in response to Press comment and Bowater put on 7 to 256p after the chairman's statement at the annual meeting. Glaxo put on 6 to 336p and Beecham hardened 3 to 191p. Elsewhere, Charles Hill of Bristol stood out with a jump of 16 to 108p on the 100p per share bid from a consortium headed by Mr. Alistair Milne. Associated Communications, at 60p, recorded a Press-inspired improvement of 4 and Dundonian hardened 2 to 71p for a similar reason. Investment buying lifted Dalgety 7 to 300p and Smiths Industries 13 afresh to 373p. Kelsey Industries contrasted with a fall of 9 to 155p on the sharply lower first-half profits.

Old Swan Hotel (Harrogate) retained a gain of 2 at 76p following the annual results and £600,000 rights issue proposal. Elsewhere in the Leisure sector, Horizon Travel attracted late support and closed 5 up at 248p.

Among otherwise idle Motor Distributors, Lex Service jumped 7 to 104p following U.S. acquisition news.

Movements of note in Paper/Printing issues were usually attributable to favourable Press mention as in Liverpool Daily Post, 5 up at 128p, after 130p, and Geers Gross, 7 higher at 119p.

Significant movements in Properties were few, but Percy Bilton shed 4 to 208p following disappointing preliminary results. Interest was again shown in Carlton Real Estates, up a fraction more to 29½p, after 30p, while Estates and Agency hardened 3 to 133p.

Oils firmer

Oils edged forward, British Petroleum rising 4 to 394p and Shell 6 to 392p. Ultramar improved 8 to 458p and Lasmo 20 to 595p, while Tricentrol firmed 4 to 242p. KCA came in for support and rose 5 to 187p while, among Irish oils, Press comment stimulated interest in Gaelic, 10 up at 205p, and Eglinton, 5 dearer at 155p. There was considerable speculative activity in Bearcat, a Canadian exploration company, which jumped to 510p before closing 155 up at 475p.

Among Financials, Mercantile House encountered further profit-taking and declined 25 to 765p.

Courtaulds found support in front of tomorrow's preliminary results and closed a couple of pence harder at 67p. Other Textiles were subdued. Profit-taking clipped 4 from Textured Jersey at 112p, but John Foster held at 23p despite the full-year loss and omitted final dividend. Hield Bros. firmed a penny to 14p, or 1 above the increased offer from Gamma Beta Investments; counter-bidders Stroud Riley Drummond were unchanged at 61p. Dealings in Yorkshire Fine Woollen Spinners were suspended at 37p pending an announcement.

Plantations were generally inclined easier. Malakoff fell 9 to 143p, while Kuala Lumpur Kepong, 121p, and Highlands and Lowlands, 75p, both shed 5.

Australian gains

Another lack-lustre performance by the bullion price—down $5.50 more at $468 prompted widespread, although generally minor, losses in mining markets with the notable exception of Australians.

The latter registered further strong gains across the board with interest continuing to centre on the oil and gas exploration companies following the Blina 1 oil discovery last week by the Vamgas consortium.

Vamgas rose 25 more to a peak 800p but the biggest gains were seen in companies with exploration licences on the fringe of the Blina find in the Canning Basin.

Swan Resources jumped 15 more to a 1981 high of 85p, Eagle Corporation 10 to a high of 63p, double the prices ruling a week ago, and Australian Consolidated Minerals 6 to 32p after a year's high of 34p. Oil Company of Australia were active and finally unchanged on balance at 31p, while Santos eased 5 to 385p.

In the leading base-metal stocks, Western Mining, which has extensive oil and gas interests in the Canning Basin, advanced to a 1981 high of 306p before closing a net 12 better at 302p. MIM Holdings edged up 2 to a high of 272p while persistent speculative interest in a market short of stock lifted Whim Creek 14 to 82p.

South African Golds again suffered from lack of interest and drifted throughout the day. The Gold Mines index fell 6.1 to 355.5.

South African Financials were easier, reflecting the falls in Golds, but "Johnnies" rose ½ to a 1981 high of £35. De Beers gave up 9 to 400p ahead of news of a cutback in diamond production.

FINANCIAL TIMES STOCK INDICES

	May 26	May 22	May 21	May 20	May 19	May 18	A year ago
Government Secs.	66.71	66.50	66.62	66.73	67.15	67.22	[illegible]
Fixed Interest	68.32	68.21	68.46	68.57	68.78	68.78	[illegible]
Industrial Ord.	547.6	543.4	544.6	544.9	555.9	563.3	[illegible]
Gold Mines	355.5	361.6	370.6	356.0	370.1	386.6	[illegible]
Ord. Div. Yield	6.03	6.07	6.06	6.05	5.92	5.86	[illegible]
Earnings, Yld. % (full)	11.76	11.86	11.84	11.85	11.60	11.61	[illegible]
P/E Ratio (net) (*)	10.68	10.59	10.60	10.61	10.82	10.80	[illegible]
Total bargains	18,753	17,638	18,681	22,525	20,956	[illegible]	[illegible]
Equity turnover £m.	—	105.94	118.79	149.06	128.34	[illegible]	[illegible]
Equity bargains	—	12,050	13,664	15,856	[illegible]	[illegible]	[illegible]

10 am 542.3. 11 am 542.5. Noon 543.7. 1 pm 544.2. 2 pm 544.3. 3 pm 544.5.

Latest index 01-246 8026. *Nil=8.81.

Basis 100 Govt. Secs. 15/10/26. Fixed Int. 1928. Industrial Ord. 1/7/35. Gold Mines 12/9/55. SE Activity 1974.

HIGHS AND LOWS

	1981 High	1981 Low	Since Compilat'n High	Since Compilat'n Low
Govt. Secs.	70.61 (2/1)	66.39 (12/5)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Int.	73.01 (2/1)	68.23 (15/5)	150.4 (28/11/47)	50.53 (3/1/75)
Ind. Ord.	597.5 (30/4)	446.0 (14/1)	597.3 (30/4/81)	49.4 (26/6/40)
Gold Mines	421.1 (14/1)	281.6 (29/1)	558.9 (22/9/80)	43.5 (26/10/71)

S.E. ACTIVITY

	May 22	May 21
Daily Gilt Edged Bargains	161.0	141.9
Equities Bargains	78.1	87.8
Value	250.5	240.1
5-day Avrge. Gilt Edged Bargains	157.8	158.3
Equities Bargains	94.3	104.8
Value	256.5	285.8

NEW HIGHS AND LOWS FOR 1981

The following quotations in the Share Information Service yesterday attained new Highs and Lows for 1981.

NEW HIGHS (64)

FOREIGN BONDS (1)
AMERICANS (10)
CANADIANS (2)
BANKS (2)
BEERS (3)
BUILDINGS (3)
DRAPERY AND STORES (2)
ELECTRICALS (3)
ENGINEERING (2)
FOODS (1)
INDUSTRIALS (10)
INSURANCE (2)
LEISURE (2)
MOTORS (1)
PAPER (2)
PROPERTY (3)
SHOES (3)
TEXTILES (2)
TRUSTS (4)
OIL AND GAS (2)
MINES (7)

NEW LOWS (19)

FOREIGN BONDS (1) Ireland 9¾pc '91
BANKS (1) Midland 7½pc
ELECTRICALS (2) Energy Servs., Scan Data, Dubilier
FOODS (1) Argyll Foods
INDUSTRIALS (4) Astbury & Madeley, Duple Int., Cawdaw Ind., Nathan (B. & I.)
LEISURE (1) Tom Hill
TEXTILES (2) Atkins Brothers, Snai Viscosa
TRUSTS (1) F. and C. Eurotrust
OIL AND GAS (2) Collins (K.) Pet., Royal Dutch
MINES (2) Wankie Colliery, Gopeng Cons.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	58	—	37
Corpns. Dom. and Foreign Bonds	12	3	53
Industrials	181	248	862
Financial & Props.	82	90	322
Oils	22	9	44
Plantations	1	8	20
Mines	36	69	59
Others	54	50	77
Totals	455	477	1,551

FRIDAY ACTIVE STOCKS

Stock	No. of price changes	Friday's closing price pence	Day's change
Boots	14	221	−11
GEC	13	663	+13
Sun Alliance	11	789	+3
Weir Group	11	89	+3
Dunlop	10	87	+2
Bowater	9	249	−1
ICI	9	286	—
Kwik-Fit	9	112	−3
Lloyds Bank	9	337	—
Nat. West Bank	9	337	−5
Plessey	9	295	+6
RTZ	9	532	+8
Shell Tr.	9	386	+4
Unilever	9	540	+3

ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday

Stock	Closing price pence	Day's change
BOC International	127	−2
Bearcat	475	+155
Beecham	191	+3
Commercial Union	156	+3
Dunlop	87	+2
Geers Gross	119	+7
GRE	298	+6
Hill (C.) of Bristol	108	+16
LASMO	595	+20
Thorn EMI	390	+8
Unilever	552	+12
Whitbread A	178	+6

OPTIONS

First Dealings	Last Dealings	Last Declaration	For Settlement
May 26	June 5	Aug. 26	Sept. 7
June 8	June 19	Sept. 10	Sept. 21
June 22	July 3	Sept. 24	Oct. 5

For rate indications see end of Share Information Service

Call options were taken out in FNFC, Aran Energy, Turner and Newall, Tozer Kemsley and Millbourn, Ofrex, Dunlop, Phoenix Timber, Beecham, Ford (Martin), Dundonian, Cardinal, Philips' Lamps, Amalgamated Distilled Products and Hestair. Puts were completed in British Sugar and Dunlop, while doubles were arranged in FNFC, Dunlop, Lasmo, BP and Racal.

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Figures in parentheses show number of stocks per section

EQUITY GROUPS & SUB-SECTIONS	Tues., May 26, 1981 Index No.	Day's Change %	Est. Earnings Yield % (Max.)	Gross Div. Yield % (ACT at 30%)	Est. P/E Ratio (Net)	Fri. May 22 Index No.	Thur. May 21 Index No.	Wed. May 20 Index No.	Tues. May 19 Index No.	Year ago (approx.) Index No.
1 CAPITAL GOODS (214)	340.85	+0.2	11.23	4.61	10.99	340.28	339.80	337.74	344.76	226.99
2 Building Materials (25)	304.31	−0.4	14.72	5.83	8.13	305.50	306.42	310.04	[illegible]	[illegible]
3 Contracting, Construction (28)	563.03	−0.2	16.55	5.01	7.16	564.16	566.27	[illegible]	[illegible]	[illegible]
4 Electricals (28)	1051.54	+0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Engineering Contractors (11)	486.48	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Mechanical Engineering (70)	211.24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals and Metal Forming (13)	171.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors (21)	106.28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrial Materials (18)	340.59	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP (195)	278.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers (20)	304.39	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing (21)	254.06	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing (14)	516.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health and Household Products (7)	424.87	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Leisure (22)	513.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Newspapers, Publishing (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Packaging and Paper (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores (44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles (23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Tobaccos (3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
39 Other Consumer (16)	245.29	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 OTHER GROUPS (79)	305.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals (15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Office Equipment (6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Shipping and Transport (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Miscellaneous (45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP (488)	297.01	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oils (12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 500 SHARE INDEX	324.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP (118)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks (6)	244.38	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
63 Discount Houses (10)	283.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Hire Purchase (4)	257.49	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life) (10)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite) (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance Brokers (8)	348.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property (48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Miscellaneous (10)	169.17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts (109)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
81 Mining Finance (4)	260.44	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
91 Overseas Traders (20)	474.74	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 ALL-SHARE INDEX (750)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST

PRICE INDICES	Tues. May 26	Day's change %	Fri. May 22	xd adj. today	xd adj. 1981 to date
British Government					
1 5 years	107.76	+0.05	107.71	—	4.24
2 5-15 years	108.60	+0.46	107.57	0.87	4.15
3 Over 15 years	118.48	+0.55	109.98	—	[illegible]
4 Irredeemables	129.87	+0.18	119.65	—	6.25
5 All stocks	108.41	+0.33	108.08	0.62	4.45
6 Debentures & Loans	84.67	+0.08	84.60	—	4.59
7 Preference	65.74	−0.42	66.01	—	3.15

AVERAGE GROSS REDEMPTION YIELDS		Tues. May 26	Fri. May 22	Year ago (approx.)
British Government				
1 Low Coupons	5 years	12.08	12.14	[illegible]
2	15 years	[illegible]	[illegible]	[illegible]
3	25 years	[illegible]	[illegible]	[illegible]
4 Medium Coupons	5 years	[illegible]	[illegible]	[illegible]
5	15 years	[illegible]	[illegible]	[illegible]
6	25 years	[illegible]	[illegible]	[illegible]
7 High Coupons	5 years	[illegible]	[illegible]	[illegible]
8	15 years	[illegible]	[illegible]	[illegible]
9	25 years	[illegible]	[illegible]	[illegible]
10 Irredeemables		[illegible]	[illegible]	[illegible]
11 Debs & Loans	5 years	15.02	15.03	[illegible]
12	15 years	[illegible]	[illegible]	[illegible]
13	25 years	[illegible]	[illegible]	[illegible]
14 Preference		[illegible]	[illegible]	[illegible]

† Flat yield. Highs and lows record, base dates and values and constituent changes are published in Saturday issues. A list of the constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London, EC4P 4BY, price 15p, by post 26p.

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price p	+ or −	Div.	Times covered	Gross yield	P/E ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Allegheny Int. Inc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Amdahl	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Atlantic Res.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Business Comp Syst.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Consultants Eng.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Energy Res. & Service	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	G.T. Global Rec. Inv. Tst.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Harvey & Thompson	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Intasun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Metal Bulletin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Reliant Motor	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Select TV	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Stone Platt Cnv Cm Pf	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue price	Amount paid up	Latest Renunc. date	1981 High	1981 Low	Stock	Closing price	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	BPC 7.75% Non. Cum. Prf.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Cambridge Water 9% Prf. 1986	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Crouch Gp. 9% Cnv. Uns. Ln. 93-96	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Leeds (City of) 13% Red. 2006	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Newcastle Water 7% Red. Pref. 1986	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Norton (W.E.) 11% Cnv. Cum. Red. Prf.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Paterson Zochonis 10% Cum. Prf.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Swansea (City of) 13% Red. 2006	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	West Hampshire Water 9% Red. Prf. '86	[illegible]	[illegible]

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. Date	1981 High	1981 Low	Stock	Closing price p	+ or −
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Armal. Power Eng.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Barker & Dobson A	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Barratt Devs.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Bestobell	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Brit. Auction	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Brit. Dredging	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Broken Hill Prop.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Cadbury Schweppes	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Comm. Bk. of Near East	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Country & New Town Props.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Electrical & Industrial	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Floyd Oil	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Fothergill & Harvey	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Hong Kong & Shanghai Bank	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	I.M.I.	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Mowlem (J.)	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Rowntree Mackintosh	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Smurfit (Jefferson)	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Sterling Credit	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Suter Electrical	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Western Selection	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Woodside	[illegible]	[illegible]

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend; cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1981. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. p Pence unless otherwise indicated. ¶ Issued by tender. || Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or take-over. |||| Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ‡‡ Unlisted Securities Market. ‡ Effective issue price after scrip.

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

[illegible]

NOTES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)

72-80, Gatehouse Rd., Aylesbury 0296 5941

Abbey Am. Gth. Tst.	61.6	66.3	-0.4	2.19
Abbey Capital	50.9	55.0xd	.....	4.00
Abbey General	58.8	63.6	+0.2	4.83
Abbey Gilt & F.I. 1st.	103.9	109.4	+0.5	11.97
Abbey Income	38.9	42.0xd	.....	8.36
Abbey W'w.Bd.Tst.	93.6	99.1	-0.3	6.76
Abbey Inv. Tst. Fd.	52.7	57.0	-0.1	4.21
Equitas Prog. Tst.	83.9	90.7xd	.....	4.51

Allen Harvey & Ross Unit Tst. Mngrs.

45, Cornhill, London EC3V 3PB. 01-623 6314.

AHR Gilt Trust	82.7	87.2xd	.....	13.00

Allied Hambro Ltd. (a) (g)

Hambro Hse., Hutton, Brentwood, Essex. 01-588 2851 or Brentwood (0277) 211459

Balanced Funds				
Allied 1st.	94.0	100.6	+0.1	5.57
Brit. Inds. Fund	78.9	84.4xd	+0.1	6.04
Growth May 20	54.2	58.0	+0.1	4.66
Elect. & Ind. Dev.	47.3	50.6xd	+0.1	4.94
Allied Capital	99.9	106.9	+0.3	4.12
Hambro Fund	139.4	149.2	+0.6	5.57
Hambro Acc. Fund	190.9	204.3	+0.6	4.01
Income Funds				
High Yield Fd.	71.9	76.9	-0.1	7.80
High Income	84.9	90.8	+0.1	7.06
Equity Income Fd.	49.2	52.6	+0.1	6.96
Govt. Secs.	24.3	24.9xd	+0.1	12.45
International Funds				
International	37.6	40.2	+0.1	2.06
Japan Fund	27.4	29.3	-0.1	0.22
Pacific Fund	75.0	80.2	.....	0.78
Secs. Of America	84.7	88.5xd	+0.1	1.81
Specialist Funds				
Smaller Co.'s Fd.	60.7	65.0	.....	4.00
2nd Smlr. Co's Fd.	74.9	80.1	.....	3.75
Recovery	29.3	31.3xd	.....	4.50
Met. Min. & C'dty.	70.7	75.6xd	.....	4.85
Overseas Earnings	73.3	78.4	+0.1	4.71
Exempt Funds				
Income Exempt	56.1	58.9	+0.1	7.22
Far East Exempt	78.1	81.2xd	+0.3	0.92

Crescent Unit Tst. Mngrs. Ltd. (a)(g)

4 Melville Cres., Edinburgh 3 031-226 4931

Cres. Amer. Fd.	46.8	50.5	.....	0.50
Cres. Internat'l.	90.7	97.9	+0.2	1.60
Cres. High. Dist.	45.2	48.8xd	.....	9.73
Cres. Reserves	52.4	56.5	+0.1	5.20
Cres. Tokyo	37.3	40.2	-0.6	0.87

Darlington Unit Trust Mngt. Ltd.

Bridge Chambers, Barnstaple, Devon 0271 76324

Total Perf. Unit Tst.	23.6	25.0xd	.....	8.52

Discretionary Unit Fund Managers

36/38 New Broad St, EC2M 1NU. 01-638 4485

Disc. Inc. May 15	258.0	275.1xd	.....	4.86

E. F. Winchester Fund Mngt. Ltd.

44, Bloomsbury Square, WC1A 2RA 01-623 8893

Great Winchester	20.7	22.9	.....	6.17
Gt. Winchester O'seas	30.2	33.3	.....	3.19

For Euston and Dudley see Robert Fraser Tst. Mgmt.

Equity & Law Un. Tr. M. (a)(b)(c)

Amersham Rd., High Wycombe. 0494 33377

Equity & Law	93.5	98.4	+0.3	4.42

Fidelity International Management Ltd.

62-63 Queen St, London EC4 1AD 01-248 4891

American (z)	43.4	46.7	+0.6	0.50
Ameri.Spec.Sits. (z)	31.2	33.6xd	+0.4	0.19
Gilt + Fixed Int.	23.8	25.1	+0.1	12.51
Growth + Income	35.1	37.8	.....	6.82
Maximum Inc. Eq. Tst.	30.5	32.9	-0.1	8.13
Special Sits.	42.9	46.2	.....	1.64

James Finlay Unit Trust Mngt. Ltd.

10-14, West Nile Street, Glasgow. 041-204 1321

J. Finlay Internat'l.	40.8	43.9	.....	1.76
Accum. Units	50.8	54.6	.....	1.76
J. Finlay High Income	38.1	41.0	.....	9.41
Finlay Wld. Energy	19.1	20.5	+0.3	1.17
Accum. Units	24.7	26.5	+0.4	1.17
J. Finlay Fd. In. Tst.	41.1	44.2	.....	5.06
Accum. Units	53.3	57.3	.....	5.06

Prices on May 20. Next dealing May 27.

Framlington Unit Mgt. Ltd. (a)

64, London Wall, EC2M 5NQ. 01-628 5181

Amer. & Gen.	92.8	99.2	+0.4	0.81
Am. T'around	86.2	92.0	+0.4	1.52

INSURANCE PROPERTY BONDS

OFFSHORE & OVERSEAS FUNDS

IDC

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

INTERNATIONAL BANK

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH AND AFRICAN LOANS

[illegible]

LOANS

1981 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		Public Board and Ind.				
64	61	Agric. Mt. 5pc '59-89	61¼	+¼	8.40	13.33
29½	26½	Met. Wtr. 3pc 'B'	26¼	+¼	11.48	13.72
114	98½	U.S.M.C. 9pc 1982	108	......	8.70	—
97¾	92½	Do. without Warnts.	96	......	9.81	16.60
		Financial				
101½	98¼	FFI 14pc '83	99⅜	–¼	14.09	14.28
92	88½	FFI(UK Fa)5½pcDb '80-2	90½	......	6.08	14.58
83½	79½	Do. 6¼pcDb. '81-84	79½	......	7.90	14.00
93	86½	Do. 10¼pc Unc.Ln. '86	91	......	12.07	14.66
92	79¼	Do. 11pc Uns.Ln. '88	89	......	12.97	14.13
92	85½	Do. 11¾pc Uns.Ln. '90	89	......	13.92	15.08
94½	88½	Do. 12½pc Un. Ln. 1992	88½	......	14.48	15.20
64½	58½	Do. 7¼pcADeb. '89-92	56½xd	......	12.54	14.90
62	59	Do. 7¼pcADeb. '91-94	59	......	12.62	14.60
72½	68	Do. 9pc 'A' '91-94	69	......	13.04	14.30
70	65	Do. 8¾pcLn. '92-97	65½	......	14.18	15.00

FOREIGN BONDS & RAILS

1981 High	Low	Stock	Price £	+ or –	Div. % Gross	Red. Yield
72	59	Antofagasta Rly.	72	+4	—	—
55	55	Do. 5pc Pref.	55	......	—	—
98	98	Chilean Mixed	98	......	3	13.16
28	17	Chinese 4½pc 1898	17	......	—	—
22	15	Do. 5pc 1912	15	......	—	—
18	10	Do. 5pc 1913	10	......	—	—
15	10	Do. 5pc '25 Boxer	10	......	—	—
94	88	Denmark 13pc 2005.	88¾	+¼	13	15.73
36	36	Greek 7pc Ass.	36	......	3½	19.79

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS AND HIRE PURCHASE

[illegible]

Hire Purchase, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS—Continued

[illegible]

ENGINEERING MACHINE TOOLS

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

FOOD, GROCERIES—Cont.

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCE

[illegible]

INSURANCE—Continued

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Finance

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

MINES—Continued

Australian

[illegible]

Tins

[illegible]

Copper

[illegible]

Miscellaneous

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 163(2)(a); not listed on any Stock Exchange and not subject to any listing requirements.
- ‡‡ Dealt in under Rule 163(3).
- ♯ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ** Regional price.
- ǁ No par value.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. ☆☆ Available only to UK pension schemes and insurance companies engaged in pension business. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend; cover based on previous year's earnings. v Tax free up to 30p in the £. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1981-82. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1980-81. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1981. P Figures based on prospectus or other official estimates for 1980-81. Q Gross. T Figures assumed. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

			IRISH		
Albany Inv. 20p	40xd	-1			
Bertam	14		Conv. 9% '80/82	£92½	-⅛
Bdg'wtr. Est. 50p	400		Nat. 9¾% 84/89	£74	-½
Craig & Rose £1	£11¼		Fin. 13% 97/02	£78¾	
Fife Forge	63		Alliance Gas	88	
Finlay Pkg. 5p	19		Arnott	230xd	
Graig Ship. £1	£18		Carroll (P.J.)	89	-1
Higsons Brew	73xd		Concrete Prods.	98	
Holt (Jos) 25p	465		Heiton (Hldgs.)	30	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OPTIONS

3-month Call Rates

[illegible]

"Recent Issues" and "Rights" Page 26

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £600 per annum for each security

FINANCIAL TIMES
Wednesday May 27 1981

UNEMPLOYED TOTAL RISING, BUT THE WORST IS OVER

UK recession levelling out

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

THE BRITISH recession began to level out in the first three months of this year. Economic activity fell slightly compared with the end of 1980 but the decline was the smallest for 18 months. There are now clear signs that the worst of the squeeze is over.

The latest figures do not support the more optimistic ministerial hopes about the start of a sustained recovery. But they do undermine some of the more pessimistic economic forecasts of a continuing decline.

There are also big variations between sectors of the economy and regions of the UK. Parts of manufacturing industry, notably engineering, and the Midlands, still report falling output. Unemployment is still rising steadily throughout the country.

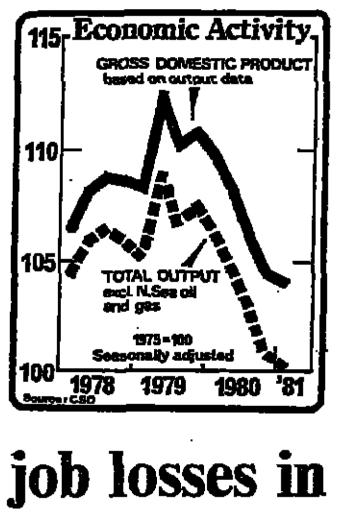
Central Statistical Office figures published yesterday show that the index of Gross Domestic Product based on output data fell by 0.4 per cent to 104.0 (1975 = 100, seasonally adjusted) in the first quarter of this year compared with the fourth quarter of 1980. This followed a decline of 7 per cent in the previous 18 months.

The small drop between the average level of the two quarters masked a flattening out of activity within the January to March period. Industrial output was slightly higher in March than in January.

The official cyclical indicators, which look ahead to turning points in the economy, suggest that the trough of the recession was reached in this period. Few forecasters expect a significant recovery in output until towards the end of this year, at the earliest.

The preliminary estimate of Gross Domestic Product yesterday is based on output data. This is usually regarded as the most reliable measure of short-term movements, though a more favourable view may be presented when income and expenditure data become available.

The Central Statistical Office commented yesterday that the fall in total output in the first quarter of this year, reflected a further decrease in industrial production (apart from North Sea oil and gas output), offset partly by increased activity in the distributive trades.



In the first quarter, there was a marked contrast between a 1.9 per cent rise in the volume of consumer spending and a 2.1 per cent drop in manufacturing production.

What happened was that, with spending in the shops remaining buoyant, retailers increased their stocks of goods, following last year's cutbacks.

Manufacturing industry reduced its stocks only slightly less rapidly than last autumn, and this was reflected in the further fall in output. But, overall, de-stocking was smaller than towards the end of 1980, which helped to limit the drop in total output.

There are one or two favourable signs from manufacturing industry. Chemicals output has been recovering since last autumn, and this is always an advance indicator of a general turnround.

Government urged to stop job losses in Midlands

GOVERNMENT action to halt the loss of jobs and industrial capacity was urged last night by Mr Chris Wann Walliker, chairman of the West Midlands region of the Confederation of British Industry, writes Arthur Smith.

He maintained that the Government had failed to realise the scale of problems caused by the recession in the region. Midlands industrialists rejected optimistic Treasury forecasts, and could see no sign of an upturn in the economy.

CBI members wanted the Government to stimulate the economy through capital investment projects, such as electrification of the railways.

Unemployment in the West Midlands has doubled in the past 12 month to 12.3 per cent. At least 200,000 workers are on short-time.

Mr. David Owen, president of the Birmingham Chamber of Commerce, said much of the region's industrial base had gone in the recession, and the decline would continue over the next six months.

"If the economy does not turn up, the loss of jobs and closures in the West Midlands will be such that the Government will be forced to take action by the autumn."

OPEC fails to agree on Gulf crude oil prices

By Richard Johns in Geneva

PROSPECTS for a compromise among members of the Organisation of Petroleum Exporting Countries (OPEC) and a move towards a realinement of basic Gulf crude oil prices, receded last night as delegates resumed their discussions on the second day of the regular biannual conference.

Earlier optimism soured as Sheikh Akhmed Zaki Yamani, the Saudi Minister of Oil, indicated that his Government was not prepared to raise the price charged for its main crude variety, Arabian light, from $32 to $34 per barrel unless the North African producers, who at present charge up to $41 per barrel, reduce their ceiling to $39 per barrel.

Delegates had earlier said that he had responded positively to the call to raise the price of the basic Saudi crude. This would have narrowed appreciably the gap in the $32-$36 range established last December.

Shiekh Yamani had stated on Monday morning that any Saudi price increase would be dependent on a reduction by other members. They have agreed to a price freeze and also to a cut in overall production of 10 to 15 per cent as a means of maintaining prices. But the main details of allocating output volumes had not yet been worked out.

The compromise envisaged would not have satisfied the North African producers, Libya, Algeria and Nigera. But they appear to have no choice but to accept it. They have all been hit as pressure on the $40 to $41 per barrel set for their light crudes has intensified as a result of lower global demand for oil and high Saudi production.

In return for a move towards price realignment, it is believed Sheikh Yamani demanded agreement by OPEC to a price freeze for not less than six months.

A standstill over such a period would hardly amount to a compromise, given the oversupply likely to prevail until the end of 1981.

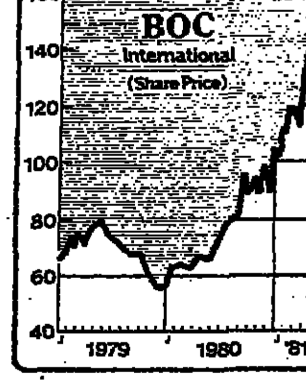
Saudi Arabia has sustained a high level of output with the objective of enforcing realignment of Opec prices on its own terms. That in turn has been seen as an essential precondition for the adoption of the pricing mechanism recommended in the report prepared under the chairmanship of Sheikh Yamani, of Opec's Ministerial Committee on Long Term Strategy, but not yet formally adopted.

THE LEX COLUMN

Why BOC had to go convertible

Helped by a firmer gilt-edged market, equities reacted very steadily to the announcement of yet another large rights issue yesterday, taking the total in May up to £350m. On the foreign exchanges the dollar remains very strong, while the bears of the French franc seem to be closing their positions. The franc moved up swiftly in the afternoon to FFr 2.375 to the D-Mark, compared with the EMS floor of FFr 2.4093.

Index rose 4.2 to 547.6



BOC International

The re-rating of BOC International shares over the last year has been accompanied by repeated denials from the company that it would take advantage of the strength of its share price to raise new capital. In the end, though the temptation has proved irresistible, but BOC has softened the blow by making yesterday's £82m (which was almost as badly kept a secret as GRE's issue last Friday) a helping of convertible loan stock.

The company insists that it looks on the stock as frustrated bond issue rather than as deferred equity. More than two thirds of its £490m of net borrowings is made up of floating rate debt—$120m has just been rolled over at a rate 6¼ points higher than its previous cost—and BOC is understandably anxious to pin down more fixed-rate, long-term money. Its intention of coming to the U.S. bond market three months ago was thwarted by a rise in interest rates, and its one-time optimism about the scope for launching a UK loan stock in April proved premature. The convertible will replace £80m of floating-rate short-term money, and save nearly £4m a year—at the cost of an eventual 18¼ per cent increase in BOC's issued capital.

If the convertible is to be regarded as debt, BOC's gearing remains extremely high, although that no longer concerns investors as much as it used to, now that they never see anything more salacious than a current cost balance sheet. On this basis net debt is 78 per cent of net worth; in a historic cost balance sheet the figure would be more like 125 per cent.

Still, this year BOC has halted its cash outflow(the small rise in debt between September and March simply reflects the effect of weaker sterling on foreign currency borrowings) and it is sticking to its forecast of a substantial improvement in profits in the year to September.

For the first half year pre-tax profits (after full replacement cost depreciation) have edged up from £31.1m to £33.4m, in spite of the loss of £2½m through a strike in the U.S. graphite business and further above-the-line redundancy costs, which are likely to total £10m, against £7m, in the full year. In the second half BOC will have the benefit in the U.S. of a flattering comparison with the recession-hit second half of last year, while Australia and South Africa remain very strong and currencies are running in the group's favour.

So last year's £81.1m should be beaten by £10m and perhaps more, which leaves the shares at 127p on less than 10 times current cost earnings with a very well covered yield of 5½ per cent. The problem is that fully-diluted earnings may stand still for a while, and over the next couple of weeks, since the convertible looks to have been keenly priced, there may be some selling of the shares by nervous sub-underwriters wanting to limit their overall exposure to BOC.

JFB

The interim profit—or rather loss—figures from Johnson and Firth Brown are horrid, but the group now looks a survivor through the present recession. The big questions are whether it will be able to expand rapidly when the economy picks up, and whether it will attract the volume of business needed to make the £40m of capital equipment brought in over the last four years earn its keep. Investors remained on the fence yesterday, with the shares unchanged at 23p, producing a market capitalisation of about £25m.

Trading profits have tumbled from £7m to £0.8m, and with an interest charge of £4.1m there is a pre-tax loss of £2.9m. At the trading level the main culprit has been destocking with in particular, a dearth of orders from Rolls-Royce (although there are now signs of a pickup here). Meanwhile, JFB has been closing down or selling some of its low return businesses and managing to invest in specialised areas through both acquisitions and equipment purchases, in spite of the restrictions imposed by the high level of net debt. Although little changed, this now represents 79 per cent of shareholders' funds, against 69 per cent six months ago, due to the effective shrinkage of the business.

Most of the remaining businesses in the rod and steel and engineering divisions are now profitable, although they remain rather a ragbag. But at the core, the steel division has been transformed and given the right conditions could produce some sparkling results. However, the sorry history of the UK special steel industry over the last couple of decades hangs like a pall over any enthusiasm.

Ward/Tunnel

The burst of buying of Tunnel shares by T. W. Ward in the middle of last week has dried up, with Tunnel's "B" share price holding a level of 448p yesterday against the 435p value of the revised and final cash offer. Under the Takeover Code, of course, Ward cannot buy at anything above 435p, and the revised offer document now confirms that the Ward tally of votes remains at just over 40 per cent of the total, where it has been since May 20.

The most recent buying, on May 20, was done under an agreement with Ward's merchant bankers, Warburgs, that Warburgs would buy on their own account but be reimbursed later whether the offer succeeds or fails. This has caused some comment from other merchant bankers who have suffered losses in the market in the past on behalf of their clients. But there has been no question here that the bank is doing other than acting as Ward's agent: this way, Ward can effectively pay in shares if it wins, and will only have to pay out cash if it loses.

At least this long-running bid saga is now within less than two weeks of a conclusion, one way or the other. But meanwhile the S. and W. Berisford/British Sugar affair seems to be developing into another marathon, with Berisford extending its offer last night after receiving the princely tally of 0.2 per cent acceptances.

Biggest Canadian grain deal with Soviets

By John Edwards, Commodities Editor

THE BIGGEST grain deal between Canada and the Soviet Union was announced by the Canadian Wheat Board in Ottawa yesterday.

Under what is described as an "umbrella" agreement, the Soviet Union has pledged o buy a minimum of 25m tonnes of Canadian grain from August this year to July 1986.

As with all deals of this kind, the amount, type and price of the grain actually bought will be negotiated with the wheat board each crop year. However, it is estimated that the deal is worth a minimu mof $5bn.

Canada regularly supplied grain, mainly wheat, to the Soviet Union for a long time, but has normally sold on an ad-hoc basis.

It seems that the Soviet Union is anxious to ensure that as much as possible of its grain supplies come from outside the U.S., even though the 16th-month U.S. embargo on sales to the Soviet Union was lifted last month.

The Soviet Union has also sought to increase purchases from Argentina.

Canada gave only luke-warm support to the embargo, especially when the U.S. signed a long-term deal with China which the Canadians claimed was its traditional market. Canada has also concluded a long term deal with China.

Canada is anxious to encourage farmers to expand grain production which provides valuable export earnings. About 20m tonnes are exported annually.

As a result of the new deal, the Soviet Union will become Canada's biggest single customer for grain.

Other leading buyers of Canadian grain are China, Japan and the UK.

Britain, which relies on Canada for the bulk of its "hard" wheat imports required for breadmaking, takes about 10 per cent (1.5m tonnes) of the top quality grades.

The Soviet Union is expected tot buy lower quality wheat and feedgrains, mainly barley.

Dutch-led consortium may build Saudi-Bahrain causeway

BY OUR FOREIGN STAFF

A CONSORTIUM led by Ballast Nedam of the Netherlands is thought to have been selected as the main contractor on the Saudi-Bahrain causeway, one of the largest construction jobs in the Middle East, likely to be worth more than $600m.

Ballast Nedam said in Amsterdam that there was still no indication that it had been granted the contract.

Mr. Robert Hupkens, leader of the causeway project, said that Ballast Nedam expected to be called shortly for final negotiations which decide whether it gets the order.

"They could ask for a large discount which we could not give," said Mr. Hupkens.

A Bahrain Government official confirmed selection of the Dutch group over the weekend, but Saudi Arabia, which is shouldering the entire cost of the project, has yet to announce a price. It is expected that the contract will be signed next month.

The project, under discussion for nearly 20 years, is for a 25-kilometre link of causeways and bridges between Bahrain and Saudi Arabia's Eastern Province.

The causeway will give a substantial boost to Bahrain's economy, both after completion and during the 4½-year construction period.

At the start of bidding more than 150 international companies grouped in 22 consortia made offers, but in the last two years these tenders were whittled down.

By January this year; only one UK concern, Cleveland Bridge, remained in competition and the Dutch group established itself as a clear favourite.

Ballast Nedam originally tendered in partnership with Mitsubishi of Japan and a Saudi concern owned by a prince, Bandar for Trade and Projects Corporation.

The consortium made four offers, of which one, a basic $559m for a concrete structure, is thought in Bahrain to have been accepted.

It is not known whether Mitsubishi, which was to be involved with a steel structure, remained in the consortium.

Banking loss at Westdeutsche Landesbank hits 1980 profits

BY STEWART FLEMING IN FRANKFURT

WESTDEUTSCHE Landesbank, West Germany's third largest credit institution, lost money on banking business in 1980 and showed an after-tax profit only because of the contribution by its mortgage-lending interests.

The bank's profits slumped last year from DM 121m (£25m) in 1979 to DM 45m (£9.3m), of which DM 60m came from its building society subsidiary.

Consolidated group profits last year fell from DM 188m to DM 61m.

The bank's full accounts, coupled with the comments of Dr Johannes Voelling, the chief executive, make clear that decisions based on mistaken interest rate predictions played a major part in the severe decline in the bank's profits.

The decline has continued into 1981 when interest earnings in the first quarter fell by 25 per cent.

Dr. Voelling warns that with interest rates at present levels the bank is unlikely to be able to pay a dividend this year and may have difficulty in doing so next year.

It has told its owners, local authorities and savings bank associations in the State of North Rhine—Westphalia, that it cannot pay a dividend for 1980.

It thus joins Commerzbank in passing its dividend at the end of what was, for most of the West German banks, the most difficult post-war year.

Westdeutsche Landesbank has warned its shareholders that they may face further demands for capital. A DM 200m increase was approved a few days ago, after a DM 100m increase last year.

Commenting on the dividend decision, in the light of the bank's prediction in December that it would maintain the dividend of 6 per cent paid last year on the 1979 result, Dr Voelling said the bank found itself "under pressure to adopt a more conservative accounting policy.

"The board decided therefore not ti dip into hidden or public reserves, but rather to strengthen reserves by not paying a dividend."

Dr. Voelling said that the bank's profitability had been affected by some DM 10.8bn of mismatched assets, that is longer-term loans made at fixed interest rates but re-financed at a loss by the bank with dearer short-term borrowings.

The bank's New York operation alone suffered a DM 47m loss last year, largely on account of mismatching, while the overall mismatched position cost the bank DM 97m in interest earnings in 1980.

The first-quarter figures suggest that the burden is even heavier today. A decline in short-term interest rates would ease the problem but the mismatching appears likely to remain on the books for at least two or three years.

West LB learns the error of its ways, Page 22

Weather

UK TODAY

SCATTERED showers, heavy and frequent in the West. Sunny intervals in the East. Rather cool.

London, S.E., E. Anglia, Channel Is.
Sunny intervals with scattered showers dying out later. Rather cool. Max. 16C (61F).

N. England, N.E.
Scattered showers, sunny intervals. Max. 15C (59F).

S.W., Wales, N.W., Man.
Showers, some heavy. Possible thunder. Few bright intervals later. Max. 14C (57F).

Scotland, N. Ireland
Showers, possible hail and thunder. Max. 13C (55F).

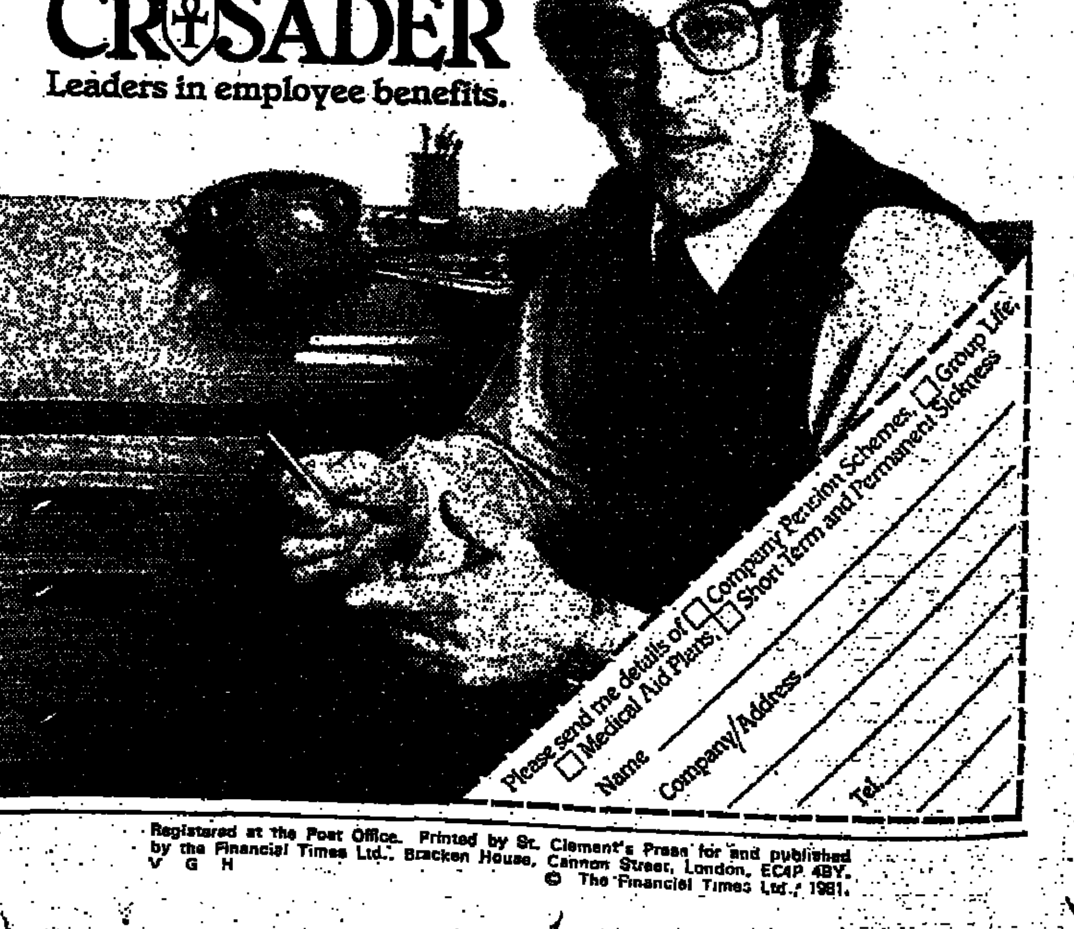
Outlook: Changeable, cool.

WORLDWIDE

		Y'day midday °C	°F
Ajaccio	R	19	66
Algiers	C	21	70
Amsdm.	S	16	61
Athens	S	27	81
Bahrain	S	33	91
Barclna.	C	18	64
Beirut	F	23	73
Belfast	F	15	59
Belgrd.	S	29	84
Berlin	C	16	61
Biarritz	C	13	55
Bmghm.	C	14	57
Blackpl.	S	13	55
Bordx.	R	14	57
Boulgn.	F	13	55
Bristol	C	12	54
Brussels	F	15	59
Budpst.	C	27	81
Cairo	S	29	84
Cardiff	R	12	54
Cas'b'ca	F	18	64
Cape T.		—	—
Chicg.†	Cl	16	61
Cologne	C	15	59
Cpnhgn.	S	16	61
Corfu	S	24	75
Denvert	F	13	55
Dublin	C	13	55
Dbrvnk.	S	22	72
Ednbgh.	S	13	55
Faro	F	21	70
Florence	R	20	68
Frankft.	C	15	59
Funchal	R	16	61
Geneva	D	12	54
Gibraltar	S	20	68
Glasgow	F	15	59
G'rnsey	C	11	52
Helsinki	R	13	55
H. Kong	C	28	82
Innsbrk.	R	19	66
Invrnss.	C	12	54
I.o.Man	C	13	55
Istanbul	F	18	64
Jersey	C	14	57
Jo'burg	F	17	63
L. Plms.	D	19	66
Lisbon	C	17	63
Locarno	R	11	52
London	C	12	54

		Y'day midday °C	°F
L. Ang.†	C	18	64
Luxmbg.	C	14	57
Luxor	S	35	95
Madrid	C	16	61
Majorca	C	16	61
Malaga	S	23	73
Malta	S	23	73
M'chstr.	F	14	57
Melbne.		—	—
Mx. C.†		—	—
Miami†	F	26	79
Milan	R	14	57
Montrl.†		—	—
Moscow	S	26	79
Munich	C	12	54
Nairobi	F	23	73
Naples	R	26	79
Nassau		—	—
Nwcstl.	S	13	55
N York†	S	23	73
Nice	R	15	59
Oporto	F	15	59
Oslo	C	15	59
Paris	C	15	59
Perth	C	12	54
Prague	C	13	55
Reykjvk.	S	14	57
Rhodes	S	22	72
Rio J.'†		—	—
Rome	C	15	59
Salzbrg.	F	19	66
S F'cisc†	F	11	52
S. Moritz		—	—
Singapr.	R	25	77
S. tiago†		—	—
Stckhm.	F	20	68
Strasbg.	C	13	55
Sydney		—	—
Tangier	F	18	64
Tel Aviv	F	22	72
Tenerife	C	16	61
Tokyo	F	25	77
T'ronto†	C	16	61
Tunis	S	27	81
Valencia	S	22	72
Venice	C	21	70
Vienna	F	23	73
Warsaw	T	21	70
Zurich	C	10	50

C—Cloudy. Cl—Clear. D—Drizzle. F—Fair. R—Rain. S—Sunny. T—Thunder.
† Noon GMT temperatures.



Philips to hive off group of small companies

By Christine Moir

PHILIPS, the television and electrical group, is to undertake a doubly fashionable exercise next month by hiving off a collection of small high technology companies under a single umbrella.

The companies, 20 in all, have been peripheral businesses within the Pye Group which became a wholly-owned subsidiary of Philips in 1979.

Now Baring Brothers, Philips bankers, are putting the finishing touches to a plan to hive off the companies under the title Cambridge Electronics Industries.

Philips intends to keep a third of the equity of CEI and provide it with continuing access to its technological skills

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Bundesbank

compared with DM 2.3160 on Friday.

The dollar was generally firm. Sterling closed in London at $2.0670, down 0.60 cents from Friday and its lowest since November 1979.

The weakness of he Mark is hitting German domestic financial markets too. In recent days, interest rates have climbed to post-war peaks with yields on a wide range of Federal Government and local authority bonds rising over the 11 per cent mark compared with just over 9 per cent at the beginning of the year. The continuing uncertainty about the interest rate outlook has already made it difficult for the corporate sector to raise longer term fixed interest finance and added to fears about the impact of high interest rates on investment.

Terry Dodsworth adds from Paris: The French franc rose sharply against the D-mark yesterday to close at FFr 2.3077. This was 1.4 per cent higher than its closing level on Monday of FFr 2.4025-50 and left the franc at its highest level against the D-mark since before the Presidential election on May 10.

Foreign exchange dealers noted little evident support for the franc by the Bank of France. Its improved position against the D-mark accompanied a slight weakening against the dollar, which FFr 5.58 at the opening. closed at FFr 5.56 versus

In London, the dollar closed at FFr 5.5425, well down from the pre-holiday close on Friday of FFr 5.58.

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Airlines

The airlines believe that if they can adjust fares sufficiently to keep pace with rising costs, they can gain a breathing space in which to work out longer-term measures to improve yields and thus also balance sheets.

Particularly bitter criticism is being directed by many British and foreign airlines at the spate of UK air traffic control disputes, which are hitting all the 70-plus British and foreign airlines which serve the UK.

These strikes have caused extensive cancellations of flights—over 1,000 by British Airways alone and several hundreds more by British Caledonian and other airlines—while there have also been long delays to hundreds of thousands of air travellers.